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WORLD MONOPOLY AND PEACE

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WORLD MONOPOLY AND PEACE



JAMES S. ALLEN



THE BOOKMAN CALCUTTA

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CONTENTS

PREFACE	7
 I GERMANY AND THE CARTELS	 9
1 The First German Recovery	10
2. New Cartel Structure	15
3 Hitler and the Cartels	18
4. German Monopoly During the War	27
 II MONOPOLY IN DEFEATED GERMANY	 35
1 Danger of Resurgence	36
2 Conflicting Trends in the West	42
3 Democratic Change	53
 III THE ZAIBATSU EMPIRE	 58
1 Conditions of Defeat	59
2 The Monopoly Structure	62
3 The Zaibatsu Take Over	71
4 The Colonial Empire	78
 IV THE UNITED STATES AS A WORLD POWER	 87
1 Wartime Industrial Expansion	88
2 Instability of the American Economy	92
 V MONOPOLY IN THE UNITED STATES	 100
1 Prewar Growth of Monopoly	100
2 Monopoly in the War Economy	107
3 Some Conclusions	115

VI. ANGLO-AMERICAN RIVALRY	...	120
1. Prewar Decline of Britain	...	121
2. Wartime Decline	...	124
3. The Weakening of Empire	..	131
VII MONOPOLY IN BRITAIN	.	140
1 Between the Two Wars	..	140
2. Wartime Monopoly		147
3. The Cartel Policy		152
VIII THE EXPANSIONIST FREEDOMS	.	159
1 Free Enterprise	.	159
2 Cartel-Busting		166
3 Free Access	..	177
IX AN AMERICAN WORLD TRUST?	...	183
1 World "Planning" Through Cartels		183
2 World Domination, Inc	.	188
3 "Progressive" Imperialism	.	193
X THE SOVIET UNION		207
1 From Socialism to Communism	..	208
2 Soviet Economy During Wartime		214
XI USSR IN WORLD AFFAIRS		224
1 Soviet Foreign Policy		225
2 Economic Co-operation		237
XII STATE CAPITALISM, FASCISM AND DEMOCRACY		250
1 "Dilemma" of Liberalism		252
2 State Capitalism and Socialism		258
3 New Democracies in Europe	.	262
XIII THE WORLD CRISIS	..	272
APPENDIX	.	278
REFERENCE NOTES		286
INDEX	.	290

Preface

Two world wars and a great economic crisis, with their immeasurable burden of death and suffering, would seem more than sufficient for a single generation. Yet in our day, after victory over the fascist Axis, threats of still another war, more destructive than the last, again agitate the world

These periodic outbursts are symptomatic of the fundamental crisis which afflicts our social system. Twice did imperialist powers seek a way out of this crisis by war against the Soviet Union, first in the armed intervention against the young socialist republic after World War I and then in the late effort of the fascist Axis. These aggressions not only met with defeat, but multiplied and extended the inner conflicts of world capitalism to the point where another global war would have revolutionary consequences of a scope that cannot now be foreseen.

Instability and war are rooted in monopoly capitalism. The recent war, itself the product of the fundamental crisis of the system, has deepened that crisis. It is still too early to define all the contours of the postwar period, or to assess the significance of every war development. But certain changes and tendencies stand out clearly.

This book attempts to describe and analyze some of these basic tendencies. The discussion is largely on the economic level. Economics and politics, of course, are inseparable, and the interaction between them cannot be ignored. World politics reflects the underlying movement of economic and social forces at a given time, and also influences this movement. But the

most reliable index to the politics of the postwar era is not to be found in the pronouncement of statesmen, although these often throw considerable light on events and influence the movement of peoples and classes. We must seek the shape of the present period primarily in the processes of social change which have been advanced by the war, in the shift of power relations among the principal monopoly capitalist groups and nations, and in the new position of socialism, as represented in the Soviet Union, with respect to the rest of the world.

The book is therefore mostly concerned with imperialism, or monopoly capitalism, in its present postwar phase, and with the manner in which the war has affected relations among the major capitalist powers, as well as between them and the Soviet Union. Attention is directed to the basic factors, in so far as they can be seen at this stage, that determine the internal and world positions chiefly of the United States, Britain and the Soviet Union after the defeat of Germany and Japan.

Such an investigation, which must necessarily touch upon many and varied aspects of world relations, is difficult under any circumstances. It is especially difficult amidst the present flux and fluidity, when events move at a swift pace, and crises within nations and between them follow in rapid succession. The temptation is great to keep enlarging upon a subject that is endless, and to bring into the analysis every new event that illuminates the current movement of history. But if the work was to be kept to reasonable length, and is to serve an immediate purpose in the pressing struggle for peace and democracy, careful selection of material had to be made, and a point in time fixed beyond which events would have to pass unnoted. That point is fixed at the beginning of 1946, when the writing was completed. Undoubtedly, the reader will miss certain topics, and he will also find some aspects not as completely developed as he would like. It is hoped that these pages throw some light upon the social changes now in progress and help the reader understand the principal direction of development.

JAMES S. ALLEN

I. Germany and the Cartels

A CENTRAL PROBLEM of the peace is to unseat the German monopoly capitalists within Germany and unscramble their European and world network. This is indispensable if the peace of Europe and the world is to be safeguarded from a resurgent German imperialism.

In one form or another, this objective was expressed in the joint undertakings of the Big Three victor powers during the course of the war. The Crimea and Berlin (Potsdam) declarations formulated common policies for the complete military and economic disarmament of Germany, and for the extirpation of militarism and Nazism. Decentralization of economic power in the trusts and dismantling of the cartel system within Germany were among the professed aims of the common undertaking.

Between the two wars the German trust magnates had strengthened their hold over the national economy and had come to play a central role in the world corporate and cartel system. Under the Hitler Reich, the monopoly leaders became the unchallenged overlords of both the state and the economy. Practically the whole European economy was brought within their corporate structure during the war.

As a result of Germany's defeat this whole system was weakened to the breaking point. Will German imperialism, now crippled and shackled, rise again as it did after the first war, or is it now finally doomed to extinction? We do not yet know the full answer. It will be supplied from many directions and as the result of the interaction of many forces. But the obstacles which stand in the way of a democratic solution are quite apparent. One of these is the system of interlocking interests between German, British, American and French capital. These

connections were built up over many years, but especially in the course of restoring Germany as a world imperialist power following her defeat in the first war.

1. THE FIRST GERMAN RECOVERY

German imperialism had been seriously weakened and exhausted by World War I. Its very existence was threatened by the revolution of 1918. Yet within a decade after her defeat Germany had regained her position as the most powerful capitalist country in Europe, and ranked again with Britain and the United States as a world power. Not only had the internal economic base of imperialism been fully restored, but its whole political superstructure had been preserved in the form of the Weimar Republic.

This resulted in the first place from the victory of counter-revolution in Germany during the early postwar years. The trinity of Social-Democratic leaders, monopolists and General Staff, which defeated the revolution and saved German monopoly capitalism, continued their uneasy alliance in the resulting Weimar Republic. Behind this facade of democratic institutions, reaction built up its warmaking industrial base to an ever higher level of efficiency, set about methodically to restore the armaments industries, and nourished the gathering Nazi movement. Among the chief instigators and supporters of the Nazis were the General Staff officers and high industrialists who organized the various freebooter corps which suppressed the people's revolts during the postwar years.

As Gerhart Eisler and his co-authors show clearly in their book, *The Lesson of Germany: A Guide to Her History*, the Weimar Republic was the product of the betrayal of the revolution of 1918 by the Social-Democratic leaders, and was sustained by the reactionary alliance which defeated the revolution. It started out with a crushing blow against the Left at home and with a foreign policy directed against the Soviet Union. Rather than accept a united front with the Communist Party against the internal reaction, the Socialist leaders preferred to maintain

the Weimar combination which served to cloak more or less effectively the restoration of imperialist Germany. Such a Germany became the base for the reactionary stabilization of Europe and the isolation of the Soviet Union

The German restoration was the product not only of internal forces. Weakened and exhausted as she was by the war, Germany could not again have risen so quickly to a commanding position in world affairs without the active support of the Allied Powers. The Versailles Peace deprived Germany of many important territorial and economic possessions which were taken over by the Allies as spoils of war, and some restrictions were imposed upon defeated Germany. But overshadowing by far the measures taken to diminish and circumscribe the German power, were the steps taken to restore Germany to a position of power on the continent, as a counter-weight to the Soviet Union and as a bulwark against revolution in Europe.

Conflicting interests and tendencies within and among the Western powers played their role—such as the British balance-of-power policy which sought to set off Germany as against France, the struggle between British and American capital for shares in German industry, the rivalry between British, French and American trusts to take over positions formerly held by German capital in Europe and elsewhere. The postwar upheavals within the victor powers, the new militancy of the labor movements and the widespread support of the socialist revolution in Russia played an important part in restraining and hindering the new imperialist ventures against the young Soviet republic. Fully occupied in defeating its own counter-revolutionaries and the Allied armies of intervention as well, the Soviet Union was in no position to play a direct role in post-war Europe.

The Versailles Peace and the League of Nations were based not upon the objective of eliminating the German power but were directed principally against the Russian revolution. As between the two main conflicting tendencies in the West—the desire to eliminate Germany as a world imperialist rival and the anti-Soviet policy—there could be no doubt as to which was uppermost. The restraining of Germany was undertaken simul-

taneously with intervention against the Soviets and against the postwar revolutions in Europe. From the beginning the German policy was subordinated to the aim of sustaining the counter-revolution. Within a short time, the restraints which had been placed upon Germany were rendered ineffective or were entirely removed. Instead the rapid restoration of imperialist Germany as a bulwark against the Soviet Union became one of the leading preoccupations of the Western powers.

Appeasement did not begin with Hitler's rise to power. The policy which boomeranged so disastrously against the Allies was deeply rooted in Allied support to the counter-revolution following World War I, in intervention against the Soviet Union, in the deliberate restoration of imperialist Germany, in the counter-revolutionary and anti-Soviet role played by Social-Democracy. It was the firm conviction of the appeasers and their predecessors that a reactionary Germany would move only in one direction, against the Soviet Union. They failed to reckon with the drive for world conquest generated by the very forces which they had helped get into power, and the Soviet strength which for a time caused even Hitler to hesitate and then crushed his invading armies.

The process by which German imperialism was restored with the aid of the other capitalist powers is well worth reviewing. Much has still to be learned from the interwar decades. The basic forces which operated to restore imperialist Germany before are by no means absent from the current scene.

It is sometimes assumed that the greater devastation inflicted upon Germany during World War II and the severance of some important areas from the Reich would preclude a resurgence of the German power. It is therefore well to recall that the first defeat cost Germany heavily. Aside from the great loss of manpower, over 13 per cent of the prewar territory and 10 per cent of the population were lost. The ceded territory contained 14.6 per cent of the arable area of prewar Germany, 74.5 per cent of the iron ore, 68 per cent of the zinc ore, 26 per cent of the coal production. With the return of Alsace to France, Germany lost the world potash monopoly and about half her textile plant. She lost the entire Alsace-Lorraine rail-

road system and other important communications. Deliveries in kind deprived Germany of her navy, most of the overseas merchant marine, one-fourth of the fishing fleet, one-fifth of the river and lake fleet, thousands of engines and railroad cars, and other properties. All colonies and many foreign investments were lost. In addition, there were reparations.¹

These losses never affected the heart of the monopoly power; for the basic industrial plant remained and the giant combines which controlled the economy were untouched. Little heed was paid even to the mild Versailles provisions for the dismantling of armament plant. Instead, with the aid of foreign and especially American capital, the war plants were "reconverted", the basic industries renovated and modernized. While British industry continued to stagnate and most of Europe remained as backward as before the war, German industry reached a new height in technical efficiency. One position after another was rapidly regained. The merchant fleet was soon fully restored. The German banks and combines retook many of their economic positions abroad, especially in Europe and including the interests which had been sequestered in the United States during the war. With the aid of the postwar inflation, by 1926 German exports were again at the prewar level, and by 1929 they exceeded the 1913 level by 34 per cent.

The runaway inflation which followed the war bears all the earmarks of having been thoroughly managed by the big banks and combines. In the absence of any important economic controls by the Allies, the manipulators were able to create new huge fortunes and extend the monopolies at the expense of the bankrupt middle class and the starving workers. Holding the key financial posts in the Weimar Republic, the big money moguls were in a position to manipulate the inflation for the purpose of ousting the smaller concerns, forcing mergers and amalgamations, storing up reserves from foreign speculation in the mark, and to rid themselves of debt. According to one expert, Germany was able from 1919 to 1923 to take care of her trade deficit, make reparations transfers, and regain some of her foreign holdings from the proceeds of the speculation in the

mark. Perhaps as much as two-thirds of these operations cost her nothing.³

The period of rapid internal expansion began with the stabilization achieved under the Dawes plan, adopted in August 1924. The reparations policy, particularly as applied under this plan, contributed heavily to the quick revival of German industry, and laid the basis for the flood of foreign investments which soon followed. Far from leading to the demilitarization of Germany, the reparations policy was designed to speed up the German restoration. Payment was to be made in marks deposited within Germany, with the result that much of it was reinvested by Allied interests in German industry. In addition, the Dawes Plan arranged an initial reparations loan to Germany of \$200 million, and this was soon followed by other loans. In the period after the inflation, Germany paid most of her reparations from foreign borrowings and not out of her own resources. Reparations payments under the Dawes and Young plans from September 1924 to the Hoover moratorium in July 1931 amounted to almost 11 billion marks, but during the same period about 25 billion marks were invested in Germany or loaned to her from abroad.

The greater part of these credits came from the United States. By 1929, foreign loans directly to the German banks had reached two billion dollars. During the five years 1925-1929 Germany obtained \$842 5 million from the United States alone; she was by far the heaviest foreign borrower from the United States.³ In addition to these loans, direct foreign investments were made by American corporations, including Standard Oil, General Electric, General Motors, International Telephone and Telegraph, Ford, and Anaconda.

According to one historian, the stabilization "inspired the capitalist world with such extreme confidence that Germany became as much the principal goal of the capital movement of that era as the United States had been in the decades before the war."⁴

The economic recovery of Germany occurred on a highly developed monopoly base, which had been left essentially untouched by defeat in World War I. As in other leading

imperialist powers, on the eve of the war finance capital was already strongly entrenched in Germany, and a very high level of concentration of production and capital had been reached. The war brought even greater concentration of economic power. In none of the other belligerent countries did the cartelization of the economy under the leadership of the giant trusts proceed as swiftly as in Germany. Cut off from most foreign sources of raw material by the blockade, Germany was forced to depend almost completely upon her domestic resources, to rationalize her industries to the utmost and to discover new technological processes. By the end of the war, the monopolies had become closely integrated with the state apparatus. State capitalism reached its highest development during the war in Germany.

2. NEW CARTEL STRUCTURE

As world capitalism became more or less stabilized after the "shock" of the socialist revolution in Russia and the political upheaval in Europe, a new cartel structure came into being. In large measure it rested upon the recovery of Germany. Many of the old cartel ties were resumed and new ones were established between the British, German, French and American monopolists. By 1925 the process was fully under way, reflecting the greater participation of the American monopolists in the European, and chiefly the German, economy.

As American corporations bought their way into the weakened German industry, taking over shares in some of the leading trusts, they participated on a larger scale than before the war in the new cartel relations. Through German and European subsidiaries as well as directly, the American monopolists helped recreate the world-wide cartel structure, involving combinations and corporate expansions on a scale that far overshadowed the pre-war structure. They participated directly in the giant world chemical cartel and the international dynamite combine formed in 1925, although the disarmament restrictions of the Versailles treaty were supposed to ban the production of war materials in Germany. Many other cartels were organized in that and the

following year, including the international rail and the European steel cartels *

Through their participation in the cartels and especially their domination of the European cartels, and with the co-operation of foreign monopolies, the German trusts easily circumvented the restrictions of the Versailles Treaty designed to prevent rearmament. Even assuming that the Allies were interested in completely curbing German war industry, which was actually not the case, experience has shown that it would have been relatively easy for the German producers to evade the Treaty as long as the monopoly and cartel system remained. This can be demonstrated by a few examples.

Three years after the armistice, the cartel pact covering military optical goods—including precision equipment such as range-finders, submarine periscopes and bomb sights—was renewed between the German firm of Carl Zeiss and the American firm of Bausch and Lomb. Zeiss had already established a manufacturing subsidiary in Holland called Nedisco to make and sell abroad military optical goods. In the new cartel agreement all markets except the United States were granted the German firm, and all foreign orders received by the American firm were referred to Nedisco. Thus Zeiss was enabled to maintain production at high capacity, while keeping fully informed of the production activities of its American partner, including details of the orders placed by the U S Army and Navy. Under the pact the heads of the Bausch and Lomb military department had to be approved by Zeiss.⁵

Through the European Steel Cartel, the Frederick Krupp armament combine was able to continue its military production abroad. The three big Krupp plants, employing 160,000 men,

* Within a short time the German steel industry had recovered sufficiently to dominate the steel cartel. As the result of a quota system favorable to the Germans, the German steel trust soon gained control over important sections of the industry in other European countries. Control over the Belgian mills, for example, was so great that German companies bought steel at lower prices from the Belgian steel producers than the Belgian companies. The German steel industry was able to raise its production to 28 million tons annually, over double the British production, on the eve of World War II. Although the United States was not formally a member, the export policy of the American steel combines was co-ordinated with that of the cartel, which represented two-fifths of world steel production and five-sixths of total foreign trade in steel.

constituted the biggest armament corporation in the world. Under the Versailles Treaty, Krupp submitted to temporary demilitarization of the German plants. In the meantime, the Krupp trust transferred its patents and secret processes to firms which it organized or with which it established close financial connections in the neutral countries. In Holland, Krupp set up Siderius A G, which collected armaments shipped from Germany and which became the holding corporation for a number of Dutch firms working for Krupp. Connections were also formed with a number of armament firms in Spain. The biggest deal was with the Swedish arms firm of Bofors, to which Krupp turned over patents in return for a controlling ownership in the firm. Through Bofors, control was established over a big section of Finnish war industry.⁶

Under the benevolent surveillance of the Allies, Germany was able to transfer whole armament plants abroad. The Fokker airplane works was shipped bodily into Holland, a Dornier subsidiary was established in Switzerland, just across the lake from the parent company, while Junkers continued to make planes through a Swedish affiliate. The British Vickers concern turned over to Krupp a steel-rolling mill at Miers, Spain, in settlement of a patents dispute. Submarine construction was carried on in the Netherlands through a disguised subsidiary of the government yards at Kiel, while a German U-boat ace founded a company in Spain to experiment with submarine construction.⁷

Of special strategic importance to Germany was the chemical cartel. By 1925, I G Farben was already exporting explosives, under the provisions of the resurrected dynamite cartel. Before the war, the German trust enjoyed a monopoly even in the United States. Within ten years after the armistice the German chemical interests regained that part of the dye industry taken over by the Alien Property Custodian during the war, and through a series of agreements with American producers exercised a considerable influence over American dyestuff and pharmaceutical production. The Kilgore Committee estimates that German and closely allied Swiss interests came to control directly about 40 per cent of United States chemical output.⁸

Congressional hearings and the files of the Anti-Trust Division abound with evidence of how Germany was able to re-equip herself for war by utilizing the opportunities provided by the international cartels. Much has been written about this, and it is not necessary to go into further detail. Germany was able to rearm not only because of the inter-connections of monopoly capital, but also because of the anti-Soviet policies which prevailed in the West. The predominant groups in Britain and America, no matter how much they would have liked to keep their German rivals in a permanently weakened position, found it more important to support a rapid German recovery as a safeguard against revolution. By 1929, the world position of German imperialism (with the exception of the colonies) had been fully restored, and the German monopolies had become a cornerstone of the international cartel system.

3. HITLER AND THE CARTELS

With the advent of Hitler, the process of concentration and monopoly combination was greatly accelerated. Domestic cartelization and forced mergers, in favor of the big banks and trusts, became even more than under the Weimar Republic a central task of the state apparatus. By the end of 1936 all domestically produced raw materials and semi-finished goods, and at least half the industrial finished goods production had been cartelized.⁹ The German economy was being rapidly transformed into a war economy. Soon after Hitler came to power, a director of one of the big German trusts wrote his American cartel partner:

With regard to the political situation . . . only one thing is very evident, namely, that all forces of administrative and economic endeavour such as the different cartels, etc., are to be brought into one definite line of endeavour coinciding, of course, with the policy of the ruling party and that individual opinions and utterances will be submitted to similar rule.¹⁰

The note of innocent helplessness which the writer permitted to creep into his letter should not be taken too seriously. By this time few can be found to deny that German big business, working with the Junker militarists, supported Hitler and finally put him in power. Yet, it is worth making the point again, since the question of whether these same monopolists will be prevented from coming back into power, at least in half of Germany, is by no means finally settled. The Kilgore Committee finds it necessary to emphasize the role of the monopolists in Hitler Germany:

The role which the cartels played in abetting Hitler's seizure of power has been recounted at length both in the testimony before the committee and elsewhere Krupp, Thyssen, and other powerful figures on the German industrial scene provided both financial support and political influence for Hitler ¹¹

The committee cites the following statement of Dr. Carl Duisberg, former chairman of I G Farben, made in 1931, to show how the plan for world conquest was linked with the ambitions of German big business:

The narrowness of the national economic territory must be overcome by transnational economic territories ... For a final settlement of the problem of Europe . a close economic combine must be formed from Bordeaux to Odessa as the backbone of Europe ¹²

Direct testimony of an American cartelst shows that the role played by I G Farben and other trusts in bringing Hitler to power was well known at the time in the monopoly circles of the United States A representative of the Foreign Relations Department of du Pont wrote his chief from Germany on March 22, 1932:

It is a matter of common gossip in Germany that I G. is financing Hitler. Other German firms who are supposed

to be doing so are Krupp and Thyssen. How much truth there is in this gossip we are unable to state, but there seems to be no doubt whatever that Dr. Schmitz [director-general of I.G.] is at least personally a large contributor to the Nazi party.¹³

How much truth there was in the "gossip" was clearly shown when Hitler took over. The Provisional Supreme Economic Council, formed as soon as the Nazi regime was established, included the chief moguls of German finance capital. Among them were Krupp, the armaments king, Thyssen, steel trust, von Siemens, electric industry magnate, Bosch, chemical trust, Vogler, steel trust, Diehn, potash king, von Schroeder, von Finck and Reinhart, big banks.¹⁴

All that had been said in the anti-Nazi press in Germany and abroad about the close connections between the Nazis and the industrial moguls, who also controlled the most important financial agencies of the Weimar Republic, was confirmed by every honest investigator in Germany after her defeat. An agent of the Treasury Department, for example, obtained a written statement from von Schnitzler, a top man of I.G. Farben, describing a meeting of leading Ruhr magnates organized in Berlin in February 1933, presided over by Dr. Schacht and attended also by Hitler, at which quotas for the Nazi campaign fund were assigned. It has at long last become a part of the historical record, that the Ruhr monopolists met with Hitler in 1932 at the Industrialists' Club in Duesseldorf to promise him their full support. It is on the record now that as early as 1924, the steel kings Thyssen and Voegler, and the big banker von Schroeder were already financing the Nazi movement. The cream of the German monopolists is to be found in a list of 43 industrial leaders whose biographies were compiled by an American government agency to show their responsibility for Hitlerism.¹⁵ All this, and more, was known to the American monopolists who invested heavily in German industry and made cartel pacts with the Germans.

Through their key positions in the Hitler state and the "community of interests" established between them, the Nazis,

and the general staff, the big monopolists extended their control of the German economy by government decree. An edict of July 15, 1933, authorized the Ministry of Economics to enforce cartelization among concerns within the various industries and trades for the purpose of regulating prices and production. Outsiders were compelled to join and the establishment of new enterprises without permission was prohibited. In November 1936, the whole network of trade associations and cartels was placed under central government supervision. On September 5, 1939, a few days after the invasion of Poland, the Ministry of Economics was empowered to compel combines and mergers for the purpose of rationalizing industrial production, pooling patents, erecting new plants, promoting exports, etc. All German business was placed under government—that is, under state monopoly capitalist—control.

"Self-government in industry," the watchword of the American National Association of Manufacturers, was enforced by the state apparatus. All firms were compelled to join the authorized trade or cartel association recognized by their government as the sole representative of the trade or industry. Self-government in industry, that is, the complete domination over the economy by the trusts and combines, attained its complete political fruition in the Hitler state. By 1943 the fusion had become so complete that the dividing line between the Hitler state apparatus and the hierarchy of the trusts could hardly be discerned. Most of the cartels were dissolved and their functions taken over directly by the war agencies of the Reich which were staffed by the former officials of the cartels.

The highly cartelized economy was geared to war. As the German cartelmaster had written his American partner, the cartels "were brought into one definite line of endeavour" within Germany and abroad. Now unchallenged directors of the Nazi state, which became their chief instrument of coercion at home and abroad, the German monopolists methodically and vigorously pursued their aggressive plans. The international cartels became an important channel through which they continued to strengthen their world economic positions and to extend their political penetration abroad. A more effective

marriage between monopoly economics and reactionary politics could hardly be imagined. All monopoly capital fights for world domination, seeking to outdo all competitive national groups of finance capital, using whatever political instruments are at their disposal. But in the complete fusion between monopoly capital and the state apparatus represented in the Nazi regime, the German cartelmasters possessed a great advantage over their British and American rivals. They were thus able to increase their control over a wide range of strategic industries, principally in Europe, and over raw material sources in various parts of the world.

Extension of German economic and political penetration proceeded also in the United States. From the evidence at its disposal, the Kilgore Committee drew the following conclusion about the penetration of the German monopolies:

Under the cover of what appeared to be normal business operations, German commercial, financial and industrial firms utilized their overseas affiliates as a part of Germany's program of economic warfare against the United States. These German-American combinations were effective instrumentalities by which the Nazi government was able to supply itself with vital raw materials for its war machine; overcome measures taken by the United States Government to prevent the dumping of German goods on American markets; acquire foreign exchange in the form of American dollars with which to purchase war equipment; conduct Nazi propaganda in support of American fascist movements; carry on industrial espionage; and hamper United States manufacturing through patent-licensing restrictions.¹⁶

In the main, these specific war aims were sought through two channels. One was the network of branch companies and affiliates established in the United States, like: Chemnyco, Inc., the American intelligence arm of I.G. Farben; the Transmares Corp., specializing in providing Germany with strategic war materials; the Krupp-Nirosta Corp., succeeding through its manipulation of patents in restricting the production of stainless

steel in the United States. The other prime channel of this activity was the international cartel structure which was used advantageously by the Germans to keep informed of the new industrial processes developed in the United States, while attempting to restrict the American production of strategic materials. Shortages of aluminium, beryllium, magnesium, synthetic rubber, diesel engines and other important war products were at least in part due to the restrictions imposed by the cartel agreements.

The most effective trust in world operations was the I. G. Farbenindustrie (Community of Interests in the Dye Industry). It is the outstanding product of the German cartel system, representing the apex of amalgamation in many interrelated industries.* It was reorganized from a relatively loose combine in 1916, in the midst of World War I. The six big chemical trusts participating in the earlier combine were closely integrated, and two additional corporations were added. It was reorganized and expanded in 1925, at the end of the inflation, as a preliminary step to participation in the giant world chemical cartel. Many new additions were made, including the major producers of explosives and munitions. The absorption of many related undertakings continued. At the outbreak of World War II, I. G. Farben represented an amalgamation of 177 German corporations.

By the end of the war, according to the United States War and Treasury Departments, Farben controlled 380 German firms. Its world organization included over 500 companies in 93 countries. Many additional firms participated in this immense network through some 2,000 cartel agreements with Farben. I. G. Farben enjoyed monopoly control or a major influence in the following fields: dyestuffs, pharmaceuticals, artificial fertilizers, explosives, petroleum, synthetic rubber, aluminum, magnesium, plastics, photographic products, building materials,

*During the war, it also participated fully in the systematic brutality characteristic of the Nazis. Farben carried out poison gas experiments on inmates of concentration camps, later these gases were used to exterminate whole groups in camps such as Auschwitz. Over 63,000 foreign slave laborers were employed in Farben plants, constituting over one-third of the total labor force (Kilgore Committee Hearings, *Elimination of German Resources for War*, Part 8, pp. 1074, 1080.)

artificial textiles, specialized machinery and technical equipment, and numerous other branches of industry¹⁷

The German steel trust, itself a giant monopoly combine, was partly owned by I G Farben. The dye trust owned many of its raw material sources, including coal, and manufactured every chemical product used in industry and agriculture. While maintaining close connections with du Pont through the world chemical cartel network, it also had other direct connections with American monopolists. A very important one was maintained through the American I G Corp., controlled by the parent trust through a Swiss branch, I G Chemie. W C Teagle of Standard Oil and Edsel Ford were directors of American I G. In the aluminum field, the German trust also had cartel connections with Mellon.¹⁸ According to Wendell Berge, I G participated in 162 cartel agreements affecting the United States.¹⁹

Often it is made to appear that the American monopolists were simply the dupes of the German cartelmasters. It may be true that they were outsmarted in this or that deal. But that is merely part of the risk involved in playing the cartel game. Obviously, the American monopolists joined the cartels because they expected to profit by them, in the protection of their home market as well as in expanding their world positions. But it would be a serious underestimation of the sagacity of the American monopolists to suppose that they were "taken in" by the more efficiently co-ordinated German cartel partners. Not only the German, but also the American and British monopolists were following a policy, and not only a "purely" business policy. As already shown, the American magnates were fully aware of the political ties between the Nazis and the German monopolies. They may have been mistaken in gauging the effectiveness of the combination, and in their estimates of the German power in relation to the Soviet Union; they certainly underestimated the strength of the anti-fascist movement throughout the world aroused by the German threat. But they knew quite well with whom they were doing business, and for what purpose.

The cartel agreements were an integral part of the general

political policy developed in the West during the inter-war decades of building up the German outpost against the Soviet Union. They expressed the underlying inter-monopoly and inter-imperialist conflict, but they also expressed agreement, though temporary and tentative as all such agreements are, among the three leading groups of world monopoly capital. The agreement could not be maintained because of the inner imperialist conflicts, as well as the intervention of the anti-fascist and anti-imperialist forces. But agreement there was. Cartel arrangements represent a stage beyond the interplay of blind economic forces; they are a conscious effort on the part of the monopolists to regulate such forces, and therefore they function in the realm of high economic-political policy.

The connection between cartels and general political trends, as expressed during the inter-war years in the appeasement policy, is illustrated very concretely by the Anglo-German cartel conference held in Duesseldorf, six months after the agreement at Munich and as the German army was moving into Czechoslovakia. At this conference the Federation of British Industries and the Reichsgruppe Industrie (equivalents of the National Association of Manufacturers in the United States) drew up an agreement providing for the closest co-operation between the monopolists of the two countries. One clause of the pact declared:

The two organizations agree that it is their objective to ensure that as a result of an agreement between their industries unhealthy competition shall be removed. Their aim is to secure as complete co-operation as possible throughout the industrial structure of their respective countries.

Another clause provided that the two central organizations would seek the help of their governments in case industry "in some other country" should refuse to become a party to the agreement and threaten by its competition to annul the new cartel pacts. As the London *Economist* pointed out at the time, this obligated the British monopoly leaders to ask their govern-

ment for subsidies and other aid to help German trade against American competitors, the only ones powerful enough to threaten and disrupt the new cartel pacts "Is there something in the atmosphere of Duesseldorf," asked the London financial organ, "that causes sensible men to lose their wits?" It could have asked the same question about the atmosphere at Berchtesgarden or Munich.

But these men had not lost their wits, although, as events have shown, they miscalculated. The Duesseldorf agreement threatened to change the existing cartel structure in favor of the British and German monopolists, and at the expense of the American. It was not an empty threat. The statement noted that "a considerable number of agreements between individual German and British industrial groups are already in existence," and revealed that "a further 50 industrial groups have already signified their willingness in principle to negotiate at an early date." It also reported "with satisfaction that negotiations have already been started and are now taking place between ten industrial groups."

This effort to establish a wholesale cartel arrangement between the British and German monopolists enjoyed the sponsorship of the Chamberlain government. A month before the Duesseldorf conference opened, the President of the Board of Trade declared in the House of Commons that the conference was organized with the full knowledge and approval of the Government, and expressed the hope that it would lead to direct negotiations between British and German firms in particular industries.³⁰

Obviously, the American monopolist leaders could not have failed to know in advance of the plans cooked up for Duesseldorf and to appreciate their full implications, especially as these threatened their own positions. As will be shown later, they counted heavily upon the great power of their giant trusts to meet the threat of the Anglo-German monopoly combination. It can be assumed also that they took counter-steps through their direct interests in Germany and their own cartel connections. American monopoly capital undoubtedly viewed the Duesseldorf development not entirely with disfavor, seeing in

it the further development of the anti-Soviet and anti-democratic policy, and some sectors may even have reacted enthusiastically to it. But they could hardly be happy about the threat to their own interests embodied in an Anglo-German combination. This certainly is one of the leading factors explaining the growing opposition to the appeasement policy in American big business and government circles following Munich and Dueseldorf.

4 GERMAN MONOPOLY DURING THE WAR

The aim expressed so neatly in 1931 by the I.G. Farben chairman to form "a close economic combine from Bordeaux to Odessa" became the keynote of German policy in the occupied and satellite countries of Europe. Various methods were used, including confiscation of "non-Aryan" concerns, of enemy properties and state-owned enterprises; control of the commercial banks closely linked with industry, forced sale of enterprises to German firms, compulsory mergers with the German trusts, creation of new corporations of mixed ownership in which the German interests dominated, the buying up of new and forced share issues, and just outright robbery.

Summing up the information at his disposal on German control of the European economy during the occupation, Antonin Basch writes:

Changes in industrial property in unprecedented volume have taken place, putting the Germans in absolute control of industry and banking in the occupied and satellite states. These changes are more extensive in Central and Eastern than in Western Europe. They are greatest in Poland, followed in due order by those in Yugoslavia, Czechoslovakia, Rumania, and Austria. In the Western European countries the policy and its effects have been the same, except that in this region the degree of penetration by direct transfer of ownership has been relatively smaller. Yet it has been substantial enough in the heavy metallurgi-

cal, chemical, and electro-chemical industries, as well as in mining and banking, to give Germany a sufficient hold to dominate production. The forced cartel agreements have completed this German control over industry in occupied and satellite Europe.

According to the same author, extreme care was taken from the beginning of the occupation "to create such a complex situation as to make restoration of the *status quo* extremely difficult." And in all the Nazi financial manipulations, one point stands out, "namely, always to give an appearance of legality to their actions."²¹

Co-operation was forthcoming from the German cartel partners in Europe. Before the outbreak of war, the economic occupation of Europe by "peaceful" means had proceeded far. German monopoly capital was already well entrenched in many European countries, and during the war the cartelmasters built upon this foundation. Among their principal political collaborators in preparing the conquest as well as in establishing the new fascist order were the big business leaders of the victimized countries.

The extent to which the French co-operated with the German trusts is revealed in a pamphlet by the Communist Party of France. It describes how after May 1940 French big business placed its enterprises at the disposal of the invader, joining in many new mergers and combinations with the German trusts. An outstanding example from the dye and chemical industry is La Societe Francolor, which was created in 1941 when the Germans took over the French Kuhlmann chemical trust. I G. Farben took 51 per cent of the capital of the new firm, in return for which Kuhlmann received shares in I G. Farben and a directorship on the new combine. The eight leading automobile manufacturers combined in the Societe Generale Francaise de Construction Automobile which was organized to turn out war equipment for the Germans. The French producers declared publicly in May 1941 for "the closest collaboration" with German and Italian firms in the same industry. Under the new combine the auto plants turned to production of standardized

equipment for four types of military trucks, voluntarily discontinuing passenger car production, which they had refused to do in the winter of 1939-1940 when they were asked to supply war material to the French army.

In the machine-tool, metallurgical, electro-chemical, armaments, lumber, synthetic rubber, textile, artificial textile, communications and other industries, as well as in mining, the biggest French producers co-operated with the Germans in merging existing firms and creating larger combines. In the field of foreign commerce, the larger firms formed in 1941 Franco-Continentale d'Importation et d'Exportation for the purpose of expanding commerce between France and her colonies and between Germany and Eastern Europe. The four giant French banks—Credit Lyonnais, Societe-Generale, Comptoir d'Escompte and Banque Nationale Pour le Commerce et l'Industrie—formed the Financiere pour le Developpement de l'Industrie en France et aux Colonies, for the express purpose of furthering joint Franco-German enterprises. Also the capital of the large French insurance companies was placed at the service of Franco-German collaboration through a new company organized by Jacques Guerard, secretary to Laval and himself president of an insurance trust.

Directed by the Comites d'Organisation established by the Vichy decree of August 16, 1940, the process of concentration and fusion hastened the elimination from the French economy of the smaller and non-trustified enterprises. By January 1943, according to an announcement of the German Military Occupation Authority, 10,000 industrial enterprises had been closed down by the "rationalization" of the French economy. "It is in that way," comments the author of the French Communist pamphlet, "that the National Revolution has signified the crushing of 80 per cent of the industrialists by the 20 per cent which constitute big business."²²

The German trusts established their domination over the European economy with the same thoroughness with which the military and political machines established their rule. This led to the expansion of the old super-monopolies and the creation of new ones on a vast scale. The Hermann Goering Works,

founded in 1937 to exploit mineral deposits of inferior grade in Germany, within two years became the third largest combine in Germany. While the voting stock was held by the Reich, the old combines shared control of the new giant with Nazi bigwigs. In time, the Goering combine came to control directly 128 companies throughout Axis Europe, and probably shared control in at least 28 others. By 1941 it controlled the entire Austrian and Rumanian iron and steel industry, at least half the iron and steel production of Czechoslovakia and Poland, the entire copper output of Yugoslavia, about 80 per cent of Sudeten lignite, and more than half the shipping on the Danube.²³

Only as more information becomes available will it be possible to draw a full picture of the wartime German cartel network in Europe. Even then it may not be complete for, as already noted, the German monopolists and their partners took great pains to "legalize" their transactions and to camouflage as many as possible with obscure and dummy ownership.

In the more highly developed capitalist economies of Western Europe, the occupation and collaboration had the effect of hastening the concentration of economic power in the hands of the trusts, which became more completely integrated with the German super-monopolies. Also brought into this European cartel and monopoly network were the German-dominated combines, still further expanded during the war, in the so-called neutral countries of Spain, Switzerland, Sweden and Portugal. A preliminary study, which did not yet take into account new wartime subsidiaries, revealed that German industry owns or controls 617 subsidiaries and affiliates in these four countries. This does not include controls over additional firms through patent rights and other devices. Of the non-European neutrals with whom German industry maintained close ties, Argentina and Turkey were the most important. At least 100 German affiliates in many industrial and commercial fields existed in Argentina.²⁴

In the economically backward areas of Eastern and Central Europe, where even before the war industry and important sources of raw materials were dominated by foreign capital, the Nazi cartelmasters took over entirely most of the non-German

interests or through collaboration brought them completely under their own control. These areas were treated, politically and economically, as "colonies" of the German Reich.

The complete German domination of Europe, as short-lived as it was, represents the very highest stage of monopoly-capitalist development, imperialism in its "purest" and most "unadulterated" form "The political superstructure of monopoly capitalism," Lenin wrote in 1916, "is the turn *from* democracy to political reaction."²⁵ Europe under Nazi domination represented that turn completed, carried out methodically and furiously to a culmination.

Not only in Europe, but also in areas under the domination of the United Nations did the German cartelists extend their penetration even during the war. One instance, cited by the Kilgore Committee, is the success of the German steel trust (Stahlverein) in maintaining supremacy in the expanding South American market. It was able to do this by filling orders with steel manufactured in the United States and obtained through its American agencies. Before the war, the Stahlverein had dominated steel markets in South America through control over the European Steel Cartel and directly through its own branches and agencies numbering 175 in nearly every country. During the war not only did the German steel trust maintain its position but it was able to outbid even the American competitors.²⁶ In his study of the world cartel system for the Kilgore Committee, Corwin D. Edwards quotes from a number of cartel agreements in which the American firms agreed to supply the German customers in South America during the war with the understanding that the trade will revert to the German firms at the end of hostilities. He cites the agreements on a number of chemical products and drugs, as well as other war-essentials like fuel-injection equipment for airplanes, which were made immediately after the outbreak of war in Europe.²⁷

Obviously, agreements of this kind were based upon the perspective—dominant even during the earlier stages of the war—of resuming the old cartel connections with the German monopolists as soon as the emergency was over. Both the Kilgore report and Edwards cite many cartel agreements specifying that

arrangements suspended in wartime were to be renewed as soon as possible. For example, when du Pont and I G. Farben in April 1941 suspended the exchange of technical information they agreed that the suspension would last only "until the present emergency has passed" with "all other obligations in the contracts to remain as at present." A letter from the American Rohm and Haas Co. to I G. Farben in January 1940 contains the promise that "we shall revert to the *status quo ante* as soon as normal conditions have been restored."²⁸

It is therefore not surprising that some of the American cartel partners of the Germans should make every effort to protect from confiscation by the Alien Property Custodian the assets of the German firms in the United States. The most notorious case on public record is the arrangement between Standard Oil Co. of New Jersey and I G. Farben.* After the outbreak of war in 1939 an official of Standard met with a representative of I G. Farben in Holland, and the American oil man reported the results in a letter.

They delivered to me assignments of some 2,000 foreign patents and we did our best to work out complete plans for a *modus vivendi* which would operate through the term of the war, *whether or not the United States came in*.

The German patents having been assured, the representative of perhaps the biggest combine in the world confessed some perplexity as to how things would work out.

Upon completion of that agreement, the war intervened because our grouping of interested parties included Americans, British, Dutch, Germans, and the war introduced

*Standard has investments in Germany in all spheres of the petroleum business, General Motors, which together with Standard owns the Ethyl Gasoline Corp. (aviation gasoline), also has important investments in Germany, producing there before the war over half the motor cars. Standard and I G. Farben had a tight cartel pact covering synthetic rubber and oil, by which Standard agreed to refrain from the production of these products in return for a commitment from I G. Farben to stay out of the oil business in the United States. After Pearl Harbour the United States found itself without the facilities to produce synthetic rubber on a scale made necessary by the cutting off of the natural rubber supply.

quite a number of complications. How we are going to make these belligerent parties lie down in the same bed isn't quite clear as yet. We are now addressing ourselves to that phase of the problem and I hope we will find some solution. Technology has to carry on—war or no war—so we must find some solution to these problems.²⁹

The patents in question were confiscated by the American government, but hostilities were no sooner over than Standard Oil started proceedings to regain the patents from the Alien Property Custodian. It is interesting to note that in the preliminary hearings Standard claimed that the patents had been bought from I G Farben, while a representative of that firm, flown specially from Germany for the trial, testified that the transfer of the patents was merely a wartime expedient.

This is not the only case on record. In January 1940, a number of American businessmen, identified only as "American friends of I G Farben," came to Basle, Switzerland, to discuss with representatives of the German chemical trust means of protecting the General Aniline & Film Corp. from seizure by the government in the event of United States entry into the war. The largest Farben affiliate abroad, General Aniline, was a merger of all I G's photographic, dyestuff and pharmaceutical interests in the United States. To protect Farben's interests, the American partners agreed to "Americanize" the corporation somewhat more and remove any outward ties with I.G. Chemie, Farben's Swiss affiliate which controlled General Aniline. As was subsequently revealed in minutes uncovered in Germany after the occupation, this plan was in accordance with a general scheme drawn up by the legal department of Farben at a meeting in March 1939. According to this plan, Farben holdings in the United States were to be transferred to American friends and to neutrals in preparation for the outbreak of war, with provisions for resuming connections after hostilities were over, regardless of who won the war.³⁰

During hearings on the elimination of German resources for war, Senator Harley M. Kilgore recalled that after World War I American firms paid accumulated royalties to Krupp on steel

armour plate and observed that an investigation would probably reveal that American corporations during the second war had also set aside reserves to pay royalties to the German companies for use of their licenses and patents³¹

Still another example of how American-German monopoly relations were maintained even during the course of the war is the current Aluminum cartel, the Alliance Aluminum Compagnie, organized in Basle in October 1941. Participating in this cartel alongside the German, French and British concerns is Aluminum Ltd. of Toronto, to which the Aluminum Co. of America had transferred its foreign holdings³²

How the cartel pacts resulted in shortages of strategic war materials in the United States has already been mentioned. But instances have also been uncovered which reveal that even during the war American cartelists helped the Axis powers. Because Remington Arms insisted upon honoring an agreement with I G. Farben, Britain could not be supplied in 1941 with tetracene, an important chemical compound used in priming machine guns, rifles and pistols³³. The titanium cartel, controlled by the American Lead Co., was charged by the Department of Justice with helping the Japanese obtain a shipment of the ore, from India, in violation of the British embargo, and with aiding I G. Farben to hide its assets in the United States³⁴

If the international connections of the trusts had to be maintained, even during war, and if technology had to be carried on, war or no war, it can be assumed that these considerations will be uppermost in monopoly circles also during the coming peace.

II. Monopoly in Defeated Germany

DESPITE THE DEFEAT and the widespread destruction within Germany, the German economy had not been rendered harmless from the viewpoint of preparing for another war. Not only were large sectors of heavy and war-potential industry relatively intact, but ownership of the closely integrated industrial structure, at least in the zones under Allied occupation, still remained with the huge German combines. The crushing military defeat of Germany and the political debacle of Hitlerism had greatly weakened German monopoly capitalism, bringing it to the brink of total elimination. But the base of monopoly had not yet been destroyed. And as long as it remained, German imperialism had the power and the possibility of recuperating.

This danger of the resurgence of a truncated but aggressive Germany was heightened by marked tendencies in the West to circumvent or reverse the joint policy for the complete demilitarization and denazification of Germany which had been adopted by the Big Three Powers at the Crimea and Potsdam conferences.

Immediately following the end of the war, reactionary political forces sought to re-establish the policies dominant during the inter-war years, with the aim of restoring Germany once more as a bulwark against the Soviet Union and a democratically stabilized Europe.

Many new obstacles confronted the advocates of such a policy, and they were beset by many contradictions within their own countries and among the Western powers. But certain conditions favored them, and the tendency had become powerful enough within a few months after the end of the war to con-

stitute a serious threat to the peace promised by the wartime Coalition

1 DANGER OF RESURGENCE

By far the greater portion of the German industrial plant, particularly heavy industry, was contained within the occupation zones of the Western Allies. The future of industry and of the monopoly power in Germany therefore depended in large measure upon the fulfilment of the Potsdam terms by the United States, Britain and France.

Measured by the value of industrial production as a whole in prewar Germany, the British occupation zone comprised roughly 35 per cent of German industry, the American 25 per cent and the French perhaps 10 per cent. The remainder, less than one-third, was contained in the Soviet zone including the portions of Silesia, Pomerania and East Prussia under Polish control.

The British occupied the most important industrial area. The Ruhr basin, situated in the provinces of Westphalia and the Rhine, is the heart of German heavy industry and the nexus of the monopoly structure. Before the war, it produced 70 per cent of all iron and steel, and over 80 per cent of the hard coal. Two-thirds of the total finished steel production of the Reich came from the Ruhr. The whole network of industry situated in the Ruhr and dependent upon its basic products constituted the biggest and most closely integrated combinat in Europe. Through the monopoly combines, steel production in the French-controlled Saar, which amounted to about 12 per cent of the Reich industry, is closely linked to the Ruhr.

Other basic industries, although largely dependent on the Ruhr for source materials, were somewhat better distributed. According to its geographical distribution before the war, the Soviet and British zones each contained about one-third of the machine-production industry, as compared with about 25 per cent in the American and 10 per cent in the French zones. The chemical industry, unless important changes took place during the war, was about equally distributed among the British

American and Soviet zones * Almost half the electrical equipment industry was situated in the Berlin area, occupied by all four powers, while the American zone included about one-fifth of the industry and the balance was about equally divided between the British and Soviet zones In the textile industry, the Soviet Union fared better, with over 40 per cent of production in its zone Another 25 per cent fell within the British sphere, while the Americans controlled about 15 per cent of the industry and the French 10 per cent ¹

While industries situated in the Soviet zone, particularly in Silesia and Saxony,* were not unimportant, their final disposal and control could not alone remove the danger of a German imperialist resurgence If fully restored, the Ruhr could serve as a very powerful base for an imperialist structure in west and south Germany This is not an abstract danger, since the resources, productive capacity and industrial integration of this region can be fully restored within a few years.

A preliminary examination of Germany's remaining war potential after the capitulation led the Enemy Branch of the Foreign Economic Administration to the conclusion that "if we were to leave Germany to its own devices and not to institute a program of economic and industrial disarmament Germany could be far better prepared for war within five years than she was in 1939"² A startling indication of the war potential of German industry after the defeat is given by the fact that in late 1944 the level of production in Germany was higher than in its whole history This had been achieved despite heavy war casualties and the accumulated effect of aerial bombings

On-the-spot investigation revealed that wartime reports of the destruction of war industry by aerial bombing had been

*According to an official of the U S Military Government in Germany, IG Farben properties by the end of the war were distributed among the various zones, by value, as follows United States zone, 9.75 per cent of the total, British zone, 11.5 per cent, French zone, 20.2 per cent, Soviet zone 58.55 per cent (Kilgore Committee Hearings, *Elimination of German Resources for War*, Part 8, p. 1067)

²Perhaps as much as 18 per cent of the prewar German iron and steel industry and about 18 per cent of hard coal production was in Silesia, most of which was placed under Polish control Saxony is an important industrial area, especially in machine production, chemicals and textiles.

greatly exaggerated. While air bombing had disrupted the flow of products and materials by wrecking the transportation system, and had flattened a few key units, the great majority of the important industrial plants could go into production with only slight repair. Total war damage to the industrial capacity was estimated at no more than 20 per cent. With a wartime capacity of 25 million tons, the steel industry could for the most part resume operations almost immediately. The giant Krupp works was operating at nearly 60 per cent capacity at the end of the war, and its manager said that it could go into full operation, if the Allies desired. An industry by industry survey showed that strategic war materials like chemicals, nitrogen, coal tar, synthetic fibres, rubber and aluminum could again be produced within a relatively short time at practically the war-time rate. The coal mines, among the best in the world, could easily resume full operation once the war prisoners had been returned and the army fully demobilized.

Such industry as had been damaged could be repaired or, if necessary, completely rebuilt within a relatively short time because of the highly developed machine-tool industry. In 1939, the machine tools in place in Germany and the machine-tool building capacity were greater than in the United States. As it stands after the defeat, the German armament machine shop is second only to that of the American. Due to this capacity, the synthetic oil plants, which had been largely knocked out from the air, might be rebuilt within six months.

In addition to abundant internal resources and workable plant, the German monopolists could count in part at least upon extensive investments abroad and upon cartel connections which had been built up over a long period and greatly extended during the war. Besides this network of interlocking corporate interests, the greater part of which the German industrialists still hoped to salvage, a special effort was made to export assets and technical personnel as it became clear that Germany would be defeated. Methods employed after World War I were again utilized, with the purpose of preserving assets in safe havens and providing a hidden reserve for another attempt at world conquest. The Kilgore Committee found that

German interests remained strongly entrenched in the neutral countries as well as in some countries dominated by them during the war, and that "the United States itself may be one of the most important safe havens for German assets." A witness before the Committee who had questioned some key German industrialists on the eve of the surrender reported that "these leaders confidently expect to be rescued from their present plight by powerful British and American friends who were their former cartel affiliates."³

A pattern made familiar by the former German restoration showed signs of reappearing. Almost a year before the end of the war, when it was apparent that Germany could not win, plans were already laid for the postwar struggle. At a meeting of leading German monopolists, held in Strasbourg in August 1944, SS Obergruppenfuhrer Dr. Scheid told his fellow-conspirators:

From now on . . . German industry must realize that the war cannot be won and that it must take steps in preparation for a postwar commercial campaign. Each industrialist must make contacts and alliances with foreign firms, but this must be done individually and without attracting any suspicion. Moreover, the ground would have to be laid on the financial level for borrowing considerable sums from foreign countries after the war.

At still another meeting, a representative of the German armaments ministry informed a small group of cartelmasters that the government would allocate large sums to industrialists so that they could establish a postwar foundation in foreign countries. Special provisions were made to separate the research bureaus from the trusts and place at their disposal plans for new weapons and other information to enable them to continue war research. The industrialists were urged to export as much of their capital as possible and to continue to finance the underground work of the Nazi party.

The State Department also revealed abundant evidence that in anticipation of defeat, the Nazis and their colleagues laid

plans to carry on in foreign countries a wide range of activities to prepare the eventual resurgence of German imperialism. According to these plans, a prominent role was assigned to the large industrial concerns abroad owned or controlled by the German trusts, to research laboratories placed in foreign countries to develop new industrial processes and new weapons, to subsidized schools to spread the Pan-German doctrine, and to a controlled press and radio abroad. Various devices were increasingly used as the end of the war approached to transfer capital abroad, including the sale of looted art objects, accumulation of profits and credit in foreign banks, joint investment with non-German capital, and sales of large quantities of technical equipment to dependable firms in other countries.⁴

The high hopes which the German monopolists placed in the "community of interest" with their confreres in other countries was revealed by a representative of the Treasury Department who questioned some of them in connection with their wartime looting of Europe:

The top I G Farben people and others, when we questioned them about these activities, were inclined at times to be very indignant. Their general attitude and expectation was that the war was over and we ought now to be assisting them in helping to get I G Farben and German industry back on its feet. Some of them have outwardly said that this questioning and investigation was, in their estimation, only a phenomenon of short duration, because as soon as things got a little settled they would expect their friends in the United States and in England to be coming over. Their friends, so they said, would put a stop to activities such as these investigations and would see that they got the treatment which they regarded as proper and that assistance would be given to them to help re-establish their industry.⁵

Considering that many of the cartel agreements had merely been suspended for the duration of the war, and that some of the American and many of the British monopoly groups were

seeking to resume the cartel pacts, the German industrialists were not so naive as some would make them out to be. Assistant Attorney General Wendell Berge told the Kilgore Committee:

I have to admit that there have been statements made, and conferences held, and things done by some of the cartel-minded industrialists in the country, and in Allied countries, that do give some encouragement and some justification to that assumption of the German cartelists

And he added, "The Germans hope to rebuild their industries and maintain their foreign investments by giving American and British industrialists shares in their enterprises"*

In any likely bargaining with their British and American counterparts, the German trust magnates possessed an asset which would carry great weight. It is the highly centralized control held by a small group of top magnates over the basic industry of Germany, and of their new wartime acquisitions in Europe and elsewhere. Despite the expropriation of their holdings by the new democratic governments of Eastern Europe, the dismantling of plant and expropriation measures in the Soviet zone within Germany, and notwithstanding the known holdings which had been vested by the Alien Property Custodians in Allied countries, the German monopolists still had a vast international network of corporate connections which they alone could manipulate. This was supplementary to the main asset of the Ruhr industrial machine and the technical processes in their hands, which remained a powerful weapon just as long as their properties were unconfiscated and no Allied action was taken to decentralize and disperse the physical plant. But their international economic penetration, combined with their central ownership of the West German productive machine, offered tempting morsels to the American and British monopolists seeking to extend their own economic interests.

Illustrative of the tight control over the economy by a small group of super-combines is the position of the iron and steel trust, which is centered in the Ruhr area. The Vereinigte Stahlwerke, equivalent of the U.S. Steel Corp., controlled 40 per cent

of the iron and steel capacity in 1943, and eleven other combines controlled another 50 per cent. Their controls radiated out from the iron and steel industry to many other important branches of production. No less than 70 per cent of the total coal production was controlled by the steel combines. They produced most of the gas supply, and played a leading role in the cement and electric power industries. The newer synthetic petroleum plants were subsidiaries of the steel combines.

Several of the combines were even more important as producers of armaments, machines, motors, and machine tools. The two most important super-combines in Germany, the Vereinigte Stahlwerke and I.G. Farben, were even more closely interlinked during the war, and came to control the huge Hermann Goering trust, set up by the Nazis as a catch-all for the looted industries of Europe.¹

Thus, there was at hand in the occupation zones of the Western allies a solid financial-industrial block which, if policy so dictated, could be integrated into the Western European monopoly and cartel system as the core of a new aggressive combination. That was clearly the political orientation of the German monopolists. It was not entirely unwelcome to powerful circles in Britain, the United States and France.

2 CONFLICTING TRENDS IN THE WEST

The essence of the Potsdam program is to prevent the restoration of the German industrial and political power to a dominant position in Europe. The purpose is to avoid the path taken after World War I which led to the temporary and reactionary stabilization of Europe around the core of a fully restored imperialist Germany. This involves not only disarmament, the disbanding of the armed forces and General Staff, the eradication of the Nazi Party and its institution, but also the elimination of a great portion of heavy industry, the dispersal of machine-building and other industrial capacity among other European countries, the confiscation of the great monopolies, and such control of the economy as will assure the permanent elimination of the monopoly power.

As the occupation began, a sharp conflict of interest and tendencies at once became apparent in connection with applying the Potsdam decisions. Obviously, advantages were to be gained by the Allied capitalist powers and their dominant monopoly groups from the permanent elimination of German industry as a European and world competitor. This interest offered a common meeting ground with the Soviet Union, whose policy was directed towards preventing the restoration of the German aggressive power and towards rooting out the source of fascism in Europe. It also coincided with the objectives of the anti-fascist movements of liberated Europe for the reconstruction of the continent along popular democratic lines and the elimination of monopoly-capitalist domination over their countries.

But the capitalist powers were torn in the main, between two sets of contradictions. One of these was economic and inter-imperialist in nature, involving a competitive struggle chiefly between the United States and Britain, although France also played a role. The other set of contradictions, not necessarily exclusive of the first, arose from the marked tendency towards an anti-Soviet and anti-democratic national policy in the United States and Britain at the close of the war.

A central factor was the expansionist tendency of American monopoly capital which came strongly to the fore once the war was over. However, the attempt to take over economic positions formerly held by the Axis powers and to penetrate into the world spheres of Britain and allied empires did not in itself imply the restoration of the German monopoly power. This was recognized by many spokesmen of government and big business. Effective demilitarization of Germany was seen as a means of eliminating a powerful competitor and enabling American enterprise to replace German economic penetration not only in the Americas but also in Europe. This attitude was certainly reflected in the American policy at the Crimea and Potsdam conferences, where the American proposals were accepted as the basis for the final decisions.⁸ When the Administration signed the proclamations of Crimea and Potsdam, it was already energetically advocating the expansionist economic program of "free access" to all markets and countries. The effective elimination

of German heavy industry as a European and world factor was a part of this program.

This outlook was rather clearly expressed by the persistent line of the Kilgore Committee against the German monopolies and their leaders. After a series of hearings on the cartel system, this Committee urged the destruction not only of the Nazi leaders and militarists but also the German industrial leadership in order to "crush German imperialism permanently and thus permit a peaceful and democratic Germany to arise." It emphasized the need to destroy the German monopolists and cartels from within, to establish an international authority to take over the controls formerly held by the cartelists, and to liquidate not only the armament industry, but also to dismantle and remove to the devastated countries of Europe "the primary indirect munitions industries, including the metallurgical and chemical industries." Co-operative action by the United Nations was also urged to destroy German economic connections in the liberated and neutral countries. It called for a complete inventory of all German property abroad—including holdings whose true ownership had been masked under Swiss, Dutch, South American and other companies—with a view to the confiscation of this property. The Committee held that the reparations policy should not encourage German heavy industry or the cartel system.⁹

A similar approach characterized the programs presented by the State and Treasury Departments and the Foreign Economic Administration to seek out and take over all German assets abroad. A rather imposing plan, for example, was outlined by Assistant Secretary of State William L. Clayton to uncover all German flight capital wherever it may seek refuge, to oust the German interests still entrenched in Latin America, and to prevent the German monopolists from restoring their international connections. In line with the Potsdam protocol, he urged that all the domestic German cartels be dissolved by the military authorities to prevent their participation in international cartels. Furthermore, as he pointed out, the power of the German trusts and combines controlling the domestic economy must be broken, since they were the most important participants of the international cartel system. In addition to these measures and pro-

posals, the Assistant Secretary also outlined various steps to seize German inventions and new processes developed during wartime for use in the United States and Britain ¹⁰

The approach of this important sector of business and political opinion was perhaps expressed most concisely by Bernard M. Baruch in testimony before the Kilgore Committee. He urged that Germany's dominance of Europe be broken once and for all. Towards this end, her war-making potential must be eliminated, many of her plants shifted east and west to friendly countries, all her heavy industries destroyed, the Junker estates broken up, exports and imports strictly controlled, and German assets and business organizations throughout the world rooted out. On the last point, Baruch insisted that there be no "hocus-pocus." He was equally insistent upon de-industrializing German heavy industry. Aware of the opposition to be expected from those American combines which held large direct investments in German industry, he proposed that they be restituted for their properties in Germany and in her satellite countries from a fund representing the pooled value of all German properties taken over by the United States. He aimed his proposals at reducing Germany's over-all industrial and technical power, and at establishing a new equilibrium in which Germany will no longer be among the dominant powers.

As an integral part of the decapitation of German monopoly power, Baruch favored a full understanding with the Soviet Union, proposing:

That this German settlement be used as a basis for a comprehensive all-embracing agreement with Russia on the major peace problems. By tackling immediately and forthrightly the question uppermost in the Russian mind—security against Germany—I believe we can arrive at a full understanding with the Soviets. If it is not possible, the sooner we know it, the better.

As can be seen, the Big Stick, or, in more up-to-date parlance, atomic diplomacy, was not entirely absent from this approach. The German question was to be used as a bargaining point in

dealing with the Soviet Union Implicit in this whole line was the threat of adopting quite another policy towards Germany

In view of the long record of aggressions against her, Baruch saw the necessity of conceding special security measures to the Soviet Union In the absence of a common policy as to the long-range fate of Germany, he feared that the Soviet Union would question Allied policy as "dictated by a desire to rebuild Germany into a buffer state against Russia In turn, the western democracies would suspect Russia of seeking to communize Germany" He thought that both a buffer Germany and a communized Germany could be avoided But he wanted a policy which would take care of any contingency He urged "a determined, enduring program of preparedness .designed to convert our nation in quickest order to the conditions of any possible war in the future"¹¹

The position of the elder statesman, who as a representative of high monopoly circles was a prominent government adviser in two world wars, can be taken as an authoritative expression of a leading body of big business opinion Obviously, these policies could not and did not stand in contradiction to the basic expansionist aims of American imperialism and monopoly

None of the spokesmen for this policy in high Administration of business circles can be described as fanatical advocates of the destruction of monopoly capitalism in Germany or elsewhere They were concerned with preventing Germany from resuming her position as a leading imperialist power At the same time, they sought a *modus vivendi* with the Soviet Union, which would counteract her growing influence as much as possible while allowing the greatest scope for extension of the American positions in the world without a head-on collision with the USSR The position recognized new power relations arising from the war, including the new political uncertainties and dangers to capitalism, but at the same time did not forfeit a single main objective of American monopoly capital, and allowed for any contingency, such as another war.

Naturally, the monopolists were in on the ground floor of the occupation. Their representatives held key posts in the Administration agencies in Washington and the Military Government in

Germany.* It would run counter to all past and present experience if they did not exert themselves to safeguard their sizable interests in German industry and appropriate such patents and technical processes as they could lay their hands on.

According to the Treasury Department, the direct American investment in German industry was sizable. A preliminary and incomplete investigation revealed that controlling interests in German industry owned by 171 United States corporations amounted to over \$420 million in 1943. This preliminary tabulation recorded only those investments representing a controlling interest in the firm in which the investment was made. The greater portion of the investment was in manufacturing, especially in the automotive and machinery fields, and in petroleum. Thus, a substantial part was in the war-convertible industries, according to the Potsdam decisions eligible for complete elimination or effective control.¹²

It is not only this direct property interest in the maintenance of German industry which tended to offset the desire to eliminate important branches of industry as competitors of the American trusts. Direct investment is of value also as a basis for further economic penetration and for extending the share of the market. Before the war, the increasing tendency of American capital was to extend its penetration of Germany and Europe through direct investment in the existing combines and through the establishment of branch plants, while at the same time participating in the cartels. A competitor can be taken care of either by eliminating him or by taking over a decisive portion of his holdings. This conflict between eliminating competitive German trusts and taking them over was reflected in the con-

* For Example Brig. Gen William F Draper, in civilian life a member of the Wall St banking firm of Dillon, Read & Co., was appointed the United States member of the Economics Directorate of the Allied Control Council. Appointments to key economic posts in the American zone included R J Wysor, former president of the Republic Steel Corp., as supervisor of the steel industry, Edward S Zdunek, formerly head of General Motors at Antwerp, as supervisor of the engineering industry, Philip Gaethke, before the war manager of the Anaconda smelters and mines in Upper Silesia, as director of mining operations. Philip P Clover of Socony-Vacuum, foreign subsidiary of Standard Oil of New Jersey, was placed in charge of the oil section, which includes synthetics. Peter Hoglund, on leave from General Motors, was named as deputy to the chief military controller of all industrial production.

traditions of American policy towards Germany. On the one hand, the plants of I.G. Farben in the American zone were taken over by the Military Government, although the question of the final disposal of the plants and the ownership of I.G. Farben's extensive holdings in the rest of Germany and abroad was still left open. On the other hand, there was a strong tendency to limit the dismantling of plant and to restore a higher level of production than that envisioned at Potsdam.

This tendency was exemplified in the report of an American economic mission, appointed by the U.S. Military Government and headed by Prof. Calvin Hoover. The report, submitted to the Soviet Union, Britain and France on September 17, 1945, undoubtedly contributed heavily to the breakdown of the first meeting of the Council of Foreign Ministers then in session in London. It came to the startling conclusion that the Potsdam agreement on reparations and disarmament would be difficult if not impossible of achievement, and represented a distinct departure from the American position which served as the basis of agreement with the Soviet Union at Potsdam.

The commission, which included representatives of American steel and automobile monopolies, held that Germany would have to be permitted exports about equal the prewar level, in order to enable her to maintain a minimum standard of living on a par with the rest of Europe, supply reparations in kind, and pay occupation costs. As much as half of the exports was to consist of machinery, chemical products and precision and optical instruments, all of which are war-convertibles. This would necessitate the maintenance of a considerable heavy industry structure. Steel exemplifies the extent to which heavy industry was favored. The Soviet Union wanted steel production limited to three million tons annually, equivalent to the domestic consumption of steel in Germany in 1932. At first the United States supported this figure, but the commission of experts suggested ten million tons annually, which represents a swing towards the British position. While this more than halves the wartime steel capacity of Germany, it would provide the necessary base for the restoration of a war-making economy.¹³

The report also reveals a tendency to depart from the repara-

tions policy already adopted by the Big Three. It is a policy of transferring machinery and labor to the countries devastated by Germany, thus reducing the capacity of German industry while increasing the industrial potential of other European countries. But the experts were inclined towards obtaining reparations in the form of semi-manufactured and manufactured articles, which would lead to the restoration of German industry to its full capacity with the aid of foreign capital. Clearly, the proposal to restore German exports to their prewar level points in that direction.

The main difference between the Potsdam approach and that of the American experts is that the former placed first the effective demilitarization and denazification of Germany, to which all else was to be subordinated, while the latter placed as the main objective the maintenance of a minimum standard of living and of a balanced foreign trade for Germany. The Potsdam terms would eliminate Germany as a great industrial power and as the possible center of European stabilization; the recommendations of the American experts, if accepted, would result in the eventual restoration of German imperialism to a dominant role in Europe. Aside from the anti-Soviet aspects of this plan, it is permeated with the concept of restoring the German market and enhancing its capacity to absorb American products and to service American investments.

The competitive struggle with Britain plays no small part in the determination of American policy. British domination of the center of German heavy industry in the Ruhr, placed the British monopolies in an advantageous position to protect and extend their interests in Western Europe and in any international cartel structure which might arise. Because of the weakened position of Britain and the greatly strengthened position of the United States, this advantage was considerably reduced by the need of economic and financial aid from the United States.

Among leading circles in Britain, and also in France, Holland and Belgium, strong pressure was exerted for the integration of the Ruhr industrial area into a West European economic bloc. In France, where the monopoly structure had always been

closely linked with the German combines and where as a result of the occupation the integration had become even closer, General de Gaulle appeared as the foremost spokesman for "co-operation" in Western Europe. By virtue of her control of the Ruhr, and also because of her dominant influence in the Channel countries, Britain would have a decisive voice in the creation of such a bloc.

Among big business circles in England, as will be shown in detail later, the dominant tendency was to restore wherever possible the prewar regional blocs dominated by Britain and to seek new regional combinations in Europe and elsewhere as a defense, among other things, against American economic penetration. This was not seen necessarily as an alternate policy to a possible agreement with the United States on outstanding economic and political issues. No matter how relations with the United States were to develop, the regional bloc was viewed as a permanent feature of British policy on the continent.

To a large measure, this view was reflected in the policy towards Germany and especially towards the restoration and utilization of German heavy industry. The most consistent and outspoken advocate for the restoration of German industry within the framework of a Western bloc was *The Economist* of London, the influential British financial organ, which had managed to build up a certain reputation for "liberalism," due to its past record of opposition to the cartel doctrine in Britain and its criticism of the Munich policy. Notwithstanding this, *The Economist* became the spokesman of what appeared to be a dominant view in upper circles for a "moderate" policy towards Germany, which it defined briefly as follows:

First, there should be a period, not exceeding five years in length, of penal servitude for the German people, the conditions of which would be as sharp as anyone desires. Secondly, the only restriction on German national freedom that should extend beyond this five-year penal period should be complete disarmament. Thirdly, with this exception [pertaining only to the prohibition of the manufacture of armaments], there should be no political or economic dis-

abilities laid upon the German people and, in particular, territorial changes should be kept to the minimum ¹⁴

Following Potsdam, the position was even more forcefully expressed in an article entitled "A Policy for the Ruhr" Here concrete economic content was given the bloc policy—as it had been envisioned by Churchill during the early phase of the war in his proposal for a permanent union between England and France, advocated in various forms by the new Labor Government immediately after its accession to power, and supported by the de Gaulle trend in France

The Potsdam policy was seen as "utter lunacy," as being ruinous for Europe and for Germany The truth, as *The Economist* saw it, is that the prosperity of Western Europe had always depended upon the great industrial concentration in the Ruhr, and that the restoration of Western Europe would now also depend upon the revival of the Ruhr and the maintenance of its dominant position in the West European economy According to this version, the European peoples had already been made to suffer too much from the Soviet and American approach to the German question, on which "unhappily the Russians and the Americans see eye to eye" Having been forced into the Potsdam agreement, as *The Economist* infers, the almost absolute control of the Ruhr presents Britain with the opportunity to reverse Potsdam:

The alternative which the British, as the party now in possession of the Ruhr, can offer is that the resources of the area should be used at once for reconstruction in Western Europe . If Britain, France, Holland and Belgium in the first place set up a series of practical, technical Mutual Aid agencies for overseeing industrial restoration, ironing out bottlenecks, allocating supplies according to marginal utility, the resources of the Ruhr could find a part in their operations. There would be no need to change the administrative machinery in the Ruhr for the time being To modify it would waste time and energy when so little are available. It would therefore be a British responsibility to

oversee the Ruhr's contribution to the European scheme of mutual aid ¹⁵

Thus the former opponent of the "cartelization of England" came around to advocating what amounts to the creation of a super-cartel of governments and private monopolies to restore the Ruhr and integrate it into a British-dominated bloc. Such a venture would also count heavily upon the direct and indirect control by Britain of many of the raw materials which must be imported by German heavy industry. The German iron and steel industry depends almost entirely on imported ferro-alloys, and two-thirds of the iron-ore requirements usually came from abroad. Before the war many of these materials were imported from various parts of the British Empire and from countries politically and economically within the British sphere*. The scheme for the Western European bloc, therefore, assumed not only that the American trusts would be agreeable to British domination of the Ruhr industries and of a European cartel network, but also to the continued British monopoly of key industrial raw materials in various parts of the world.

The possibility of American co-operation in return for a substantial interest in the venture and other concessions in the Empire was not to be excluded, especially if a reactionary and anti-Soviet trend within the United States would become dominant.

Such are some of the contradictions which beset the Western powers in Germany. But the future of Europe and the fate of German monopoly capitalism depended not alone upon the outcome of these conflicts. Other political factors played a decisive role.

* Both prewar and wartime imports of iron-ore came mainly from Sweden, but also from Spain and French Lorraine. South Africa supplied most of the prewar manganese imports, and Turkey and South Africa most of the chrome. During the war, the Balkans supplemented the Turkish supply. Before the war tungsten came from China and India, and during the war from Spain and Portugal. Canada and the Dutch East Indies supplied prewar nickel imports, while wartime supplies came from Finland, Norway and Greece.

3. DEMOCRATIC CHANGE

The task of eliminating German monopoly capital can be performed thoroughly only from within Germany, and by the German people themselves. By the time of the military defeat, the anti-Nazi forces of Germany had been greatly weakened and depleted, and the fascist ideology had seeped deeply into the German people. A labor and democratic movement capable of playing a decisive political role could not immediately arise. Under these circumstances, the policy of the occupying Powers in their zones of occupation, especially during the early and formative phases of the occupation, was decisive in influencing the course of events.

Each of the Big Three faced a three-fold test with respect to the application of the policies which were jointly established:

1. How effectively did they carry out the policies of the Crimea and Potsdam accords, as a joint undertaking and in their separate zones?

2. How effective were they in eliminating the Nazi leaders and their responsible collaborators from the political, cultural and economic life of the country?

3. Did they encourage the anti-Nazi and democratic forces of the German peoples or did they themselves become an obstacle to the development of these forces?

We have already indicated the tendencies at work in the West which militated against the fulfilment of the Big Three agreements, and which account for the contradictions, uncertainties and hesitations in the policies of Britain and the United States in Germany. To what has been said must be added still another important factor—the fear of setting an anti-fascist and democratic popular movement into motion, and consequently the effort to carry through a “revolution from above” with the aid of reactionary and conservative forces from among the Germans. The search for a political combination that could be thoroughly controlled and which would in turn prevent the popular movement from “getting out of bounds,” something on the style of Social-Democracy after World War I, was one of the main pre occupations of Western Allied policy.

Of the Big Three, the Soviet Union alone adhered strictly to the spirit and the letter of the policy jointly agreed upon. This applied to all phases of policy, whether economic or political. Within Soviet society there were no monopoly combines to press their own interests in Germany. Between the Soviet Union and the other powers there could be no competition for markets, for spheres of imperialist penetration or for domination in the cartel structure. Soviet policy demanded security, founded upon friendly relations with the democratic nations of Europe and upon co-operation on a plane of equality with the other victor powers. Having destroyed the prewar hostile encirclement, at a tremendous price in life and socialist property, the Soviet Union was clearly determined not to permit the formation of a new blockade against herself.

Obviously, her first concern was to prevent the restoration of an imperialist and aggressive Germany. In the strict application of the Potsdam terms and in her policy of support to anti-fascism throughout liberated Europe, in accordance with the Crimea Declaration, the Soviet Union sought to establish a basis for the democratic reconstruction of Europe in which the German power would no longer play a dominant role. The leading participation of the Soviet Union in the occupation in itself precludes the rise of an imperialist Germany with the economic and strategic advantages of the pre-Hitler days.

Within her own zone of occupation in Germany, the Soviet Union lost no time in eliminating the centers of fascist reaction. While the specific conditions which prevailed demanded firm control from above to assure the destruction of the whole Nazi-imperialist structure, the Soviet Union at the same time encouraged the anti-fascist and democratic popular movements. No sooner did these begin to form and to voice demands for a democratic reconstitution of German society, than the Soviet authority permitted the carrying through of the reforms and measures of anti-fascist reconstruction. Thus, the long overdue land reform, the breaking up of the Junker estates which served as one of the main sources of reaction in Germany, was soon initiated. Trade unions and anti-fascist political parties made their legal appearance early and began to play their role in the

reconstruction. The first civil administration of anti-fascist Germans was set up in the Soviet zone. Once having removed the Nazi potentates and taken full security measures to root out the neo-fascists and their organizations, the Soviet Union stimulated and encouraged the movement from below.

Long before the Western powers took the first steps to dismantle German war industry, the Soviet military government was already moving large quantities of machinery from plants situated within her zone. The anti-fascist political parties advocated the nationalization of the trustified industries, and steps in that direction were taken. Unharassed by fears of basic democratic reform, the Soviet Union was able and ready to give its full approval to all measures which would guarantee against the restoration of the private monopoly structure in its zone, and to influence the adoption of similar measures in Germany as a whole.

The policies followed in the Soviet zone, especially as they stimulated the democratic movements and led to the revival of anti-fascist political parties, could not help but influence developments in the rest of Germany.

Since basic heavy industry is concentrated in the West, the problem of destroying the monopoly power in Germany cannot be solved conclusively in the Soviet zone. However, as one of the Big Three the Soviet Union insisted upon the elimination of the war-making potential of German industry. The Potsdam agreement entitled the Soviet Union not only to such machinery as she wished to take from her own zone in the form of reparations, but to 25 per cent of the dismantled plant in the Western zones. This presupposed, of course, that heavy industry would be dismantled in Western Germany and the Potsdam protocol fulfilled.

There was still another means at hand to influence the confiscation of trustified industry in the West. According to the researches of the Foreign Economic Administration, the German state held direct ownership of large blocks of shares in leading monopoly combines. This control covered over half the German steel capacity. All the voting stock of the Nazi-created Hermann Goering super-combine was held by the Reich. The largest

stockholder in the Vereinigte Stahlwerke was the state, which held as much as 39 per cent of the stock, after it had confiscated the holdings of Thyssen. It was estimated that in 1941 the Reich owned in one form or another mines producing as much as 40 per cent of the hard coal.¹⁶ Even if, as the British seemed to insist, purely "legal" methods were to be used in accordance with established capitalist concepts of property, the Allied Control Council would be entitled as the all-German authority to take over the controlling interests formerly held by the Reich and dispose of the principal combines along the lines of the Potsdam agreement.

What counted most in the initial period, however, was the actual possession of plant. The Power within each occupation zone could determine what was to be destroyed, what dismantled and transferred out of the country and the degree of control to be established over the economy. But as a labor and democratic movement took shape and came to play more of a role in the political life of defeated Germany, other forces would enter the picture. The weakness of the anti-fascist movement within Germany as the war came to an end did not mean that within a few years there would not develop a democratic movement of sufficient scope to affect decisively not only the problems of economic control and reparations but also the basic question of the ownership of German big industry.

The rise of new forces in liberated Europe pressing for a fundamental reconstruction of all Continental relations also affects directly the future role of Germany. The separation from Germany of East Prussia and especially of industrialized Silesia as well as of other Eastern lands, accompanied by the strengthening of Poland as a major European Power, would change the strategic relations in Eastern Europe to the disadvantage of Germany. In Central Europe and the Balkans, the rise of the new democracies promises to end once and for all the penetration of German influence into these areas and tends to delimit the sphere of monopoly capital in general. In countries where the liberation movements established themselves in power, the most effective steps were taken to root out German interests by the

confiscation and nationalization of the holdings of the German trust and of their collaborators.

Much was yet to be decided in France. It was by no means a foregone conclusion that the 200 families of the trusts would succeed in turning that country into the center of an anti-Soviet bloc. The revulsion against the old order was too powerful in France, the pressure for nationalization of the trusts too persistent, and the feeling of friendship for the Soviet Union too deep to permit such an outcome without a violent struggle. Munich and Vichy in a single decade would seem more than a nation could bear.

Germany was the vortex not only of European but of world forces. Here the three big world powers met. But the issues of the German settlement stretched beyond the continent to include the whole world.

III. The Zaibatsu Empire

DURING THE SPACE of some seventy years, the oligarchy of Japan came to dominate a vast portion of East Asia and the Southeast Pacific. In World War II, Japanese imperialism met with its first major catastrophe.

According to all the rules and realities of war, Japan was defeated. Documents of unconditional surrender, duly authorized and signed in an imposing ceremony on an American battleship in Tokio Bay, bear witness. We have the additional testimony of General Douglas MacArthur who announced, four months after Japan's defeat, that the "last evil roots" had been torn out, and that he had dictated the major directives for the construction of a new democratic system.¹

When the Supreme Commander presented this sweeping claim to eternal fame, the outer Japanese empire was gone, but the Emperor, his assorted nobility, the Zaibatsu finance-capitalists and the old state bureaucracy were still in the saddle. Such reforms as were handed down benignly from above were designed to pacify an aroused people and to hold in check the gathering democratic revolution against the warmakers and the Emperor state.

Having been defeated, the oligarchy suffered humiliation at the hands of the conqueror, and also sustained some real losses. The more prominent militarists and jingoists had to surrender as war criminals, still others were withdrawn from the political limelight. Real losses included surrender of the colonial conquests, sufficient demilitarization of the armed forces and the war economy to guarantee against their independent use, and the sharing of power and control with the Americans. But the oligarchy remained. The inner foundations of Japanese im-

perialism had barely been touched. The major tasks of building a democratic and non-aggressive Japan still lay ahead.

1 CONDITIONS OF DEFEAT

The circumstances surrounding the defeat of Japan stood in sharp contrast to the German surrender. By the end of the war in Europe, conditions for the elimination of the German imperialist power were much further advanced. The German army was completely smashed, the country was invaded and occupied by all main Allied forces, and internal disintegration had proceeded far. The Nazi state as a central power had been effectively removed and replaced by a joint military government. In the Soviet zone, the local apparatus and personnel of the old regime were eliminated. These developments counted heavily in favor of a democratic solution in Germany.

During the initial period of occupation in Japan it soon became obvious that it was the fixed aim of United States policy to maintain unilateral control, with a view to preserving this key imperialist position of East Asia as a stepping-stone for American penetration of the Far East and as a barrier against the Soviet Union. These objectives required that the essential base of monopoly capitalism in Japan remain untouched, whatever changes may be made in the political structure. On this point there was established immediately a coincidence of interest between the oligarchy in Japan, threatened by a democratic revolution, and the American imperialists.

These parallel interests largely determined the time and terms of the surrender. The oligarchy withdrew Japan from the war when it became certain that she would be crushed in short order by the combined blows of the United States and the Soviet Union. In addition to saving the homeland from invasion and withdrawing the army before its complete defeat, the rulers of Japan were able to negotiate the final surrender while the Red Army was still fully occupied in defeating the powerful group of Japanese militarists in Manchuria. Thus was averted joint Soviet-American occupation and control of the country, which

would have been unavoidable had the Soviet armies participated in an invasion of Japan. The most important point that remained to be gained before the surrender was recognition of the oligarchy as the governing authority in defeated Japan. This assurance was soon forthcoming in Secretary Byrnes' message of August 11, recognizing the "authority of the Emperor and the Japanese Government to rule the state subject to the Supreme Commander of the Allied Powers."² Having won this, quick surrender became the means of continuing the Old Gang in power and protecting that power against the internal forces seeking to overthrow it.

Not only did the oligarchy retain power and avoid Soviet participation in occupation and control of the country, but Japanese commanders were invited even after the defeat to join with the Western victors in military action against the democratic and independence movements in Asia. While some military leaders were being tried as war criminals, others led their troops in police work, alongside American, Kuomintang, British, French and Dutch troops, in China and Southeast Asia. If the Japanese rulers had to give up their loot empire, they also had the satisfaction of knowing that the victor imperialist powers did not intend to destroy the colonial system. The Greater East Asia Co-Prosperity Sphere, as the Japanese aggressors called their empire, was lost; but the colonial sphere itself, no matter how redivided and redistributed, as long as it remained would offer opportunity for renewed efforts at economic and political penetration, and perhaps also for new military ventures in the not too distant future.

As already indicated, the relative position of the world powers with respect to defeated Japan also differed from their relations to defeated Germany. In contrast to the joint occupation policy followed in Germany, although this left much to be desired, the United States immediately pre-empted control of Japan. This was an established policy, already evident during the course of the Pacific War where American strategy was devoted to assuring the dominant role for the United States in the victory, even at the expense of coalition warfare. If doubt existed that the American policy-makers intended to plant the

United States firmly in Japan, this was soon dissipated by a directive issued jointly by the State, War and Navy Departments, and approved by President Truman on September 6, 1945, four days after the surrender. While it was promised that efforts would be made by "consultation and by constitution of appropriate advisory bodies" to establish policies satisfactory to the other Allied powers, it was stated categorically that "in event of any difference of opinion among them, the policies of the United States will govern"

The directive was equally clear with respect to the internal structure. The American Supreme Commander was instructed to "exercise his authority through Japanese governmental machinery and agencies." The "normal powers of government" were to be enjoyed by the Japanese state. Having provided these essential safeguards for the perpetuation of the oligarchy, and mindful of democratic opposition at home and abroad, the policy-makers cautioned that "the policy is to use the existing form of government in Japan, not to support it."³

This basic policy of the United States government was little affected by the decision reached at the Moscow Conference of Big Three foreign ministers in December 1945. Unilateral American control would perhaps be limited somewhat if the new inter-Allied bodies functioned properly. A Far Eastern Commission was to determine policy for Japan and an Allied Control Council was to sit as an advisory body to the Supreme Commander in Tokyo. The American chain of command from Washington to Tokyo was specifically safeguarded as the only channel for the transmission of policy, and the American Supreme Commander was to be the only executive in the application of that policy. The Soviet Union was represented on both bodies, as were the British and Chinese, but the United States still retained the dominant position in both the determination and execution of policy.

It will take more than decrees by a Supreme Commander to eliminate the aggressive forces from Japan. These are deeply rooted in the Japanese social and state structure. They can be effectively uprooted only by a democratic transformation from within, and not by a "revolution from above" dictated by a

foreign general and carried out by the very forces which are to be eliminated.

The retirement of a few leading militarists and extremists while the old oligarchy continues to hold power merely helps maintain a non-militarist facade behind which the forces of aggression will gather anew. Evolved as a group from the old feudal classes and as individuals also merged with other sectors of the oligarchy, the militarists cannot be permanently eliminated unless the community of reactionary classes which dominate the Japanese state is destroyed. The combination of Zaibatsu, big landowners and the Emperor State bureaucracy which rules Japan will again resurrect its militarists to lead a new war of conquest unless this combination is permanently deposed and replaced by a popular democratic state. It is not a question of a few reforms. Japan has never had a democratic revolution. Nothing less will now suffice.

2 THE MONOPOLY STRUCTURE

In some important respects, the Japanese monopolists emerged from the war in which their country was defeated considerably stronger than in 1931, when the invasion of Manchuria opened the new phase of aggression. They lost control of many raw materials essential for their industry and may lose most of their assets in the colonies. But this loss is more than equalled by the great wartime gains of the Zaibatsu in Japan proper.

Between the Manchurian invasion and the defeat of 1945, an important industrial transformation occurred in Japan. From a country predominantly of light industry and relatively low concentration of production, Japan became a heavily industrialized nation at a high level of economic concentration and control. By 1939, the textile industry accounted for only 20 per cent of total industrial output as compared with 40 per cent in 1931. Chemical output alone accounted for 20 per cent of industrial output by 1942. The expansion of war industries reached its apex in 1943-45 when war production became overwhelmingly predominant. By the end of the war, heavy industry probably

accounted for more than four-fifths of the total industrial output⁴

Despite B-29 raids, a major portion of heavy industry was untouched, or only slightly damaged. Edwin W. Pauley, United States Reparations Commissioner, reported after an investigation: "In steel machine tools and other machinery made from steel, Japan's own figures show she still has in working condition more than twice the facilities she had when she invaded Manchuria in 1931." Steel capacity stood at eleven million tons, and working capacity in other strategic industries remained formidable.⁵

New war production was dominated by the Zaibatsu, and especially by the so-called older or "moderate" Zaibatsu, although a number of newcomers had to be admitted into the field. The power of the houses of Morgan, Rockefeller, du Pont and Mellon is vast, but their relative control over the American corporate structure, great as it is, is less than the control enjoyed by the Big Four Zaibatsu—Mitsui, Mitsubishi, Sumitomo and Yasuda. Even before their great wartime gains, these four controlled 60 per cent of the capital invested in all joint-stock companies, with Mitsui alone accounting for 25 per cent. Together with the Shibusawa and Kawasaki banking interests, they held 57 per cent of all funds deposited in banks, trust companies and insurance firms. The Big Three alone controlled at least half of copper and coal production, half of all goods in warehouses, half of all merchant ships by tonnage, and 33 per cent of all foreign trade. Between them, Mitsui and Mitsubishi constructed well over half of the gross tonnage of steamers, controlled the entire paper industry, 70 per cent of the flour milling capacity, practically all sugar refining, and much of the chemical industry. Mitsubishi dominated aircraft and sheet-glass production. In addition, the big Zaibatsu shared with the government control of pig-iron, steel and metal alloy production.⁶

If by the beginning of the big war the Zaibatsu dominated the main branches of industry and finance, by the end of the war they were unchallenged masters of the entire economy, which had been greatly expanded. With the aid of the state control

measures, the Zaibatsu swallowed the lesser companies through a series of forced mergers and amalgamations. This process is inherent in a monopoly capitalist society; in Japan it proceeded at a swift pace under the duress of a hard war and under the guidance of an absolutist state. As the war reached its apogee, the merger process was accelerated. In 1940, mergers and reorganizations involved 216 companies with a capital of 3.6 billion yen.⁷ But during 1941-43, industrial amalgamations affected 1,354 firms, involving a combined capital of over 19 billion yen, chiefly in textiles, chemicals, machinery and tools. During the last phase of war industry mobilization in 1944-45, the merger movement undoubtedly reached its peak.

A similar movement occurred in the field of finance, where mergers of banks, trusts and insurance companies also involved the industrial interests controlled by them. By 1941, five insurance companies accounted for almost 70 per cent of all the insurance in force. The number of savings banks had been reduced to 29 by 1944, as compared with 72 in mid-1941. A series of amalgamations left only seven trust companies, five of which belonged to the leading Zaibatsu. Even more impressive are the mergers of the big commercial banks, involving three of the largest private banks in Japan. As a result, the Teikoku (Mitsui), Yasuda, Mitsubishi, Sanwa and Sumitomo banks, in mid-1944, held 70 per cent of the deposits, 78 per cent of the discounts, loans and advances, and 61 per cent of the security holdings of all private banks. During this period the total number of private banks had been reduced from 245 to 88.⁸ Towards the end of the war, even greater mergers took place. In March 1945, nine of the largest savings banks amalgamated into one central bank with total deposits of 8.5 billion yen.⁹

By the end of the war, according to Allied Headquarters in Tokyo, the Big Four Zaibatsu had a working capital of 12 billion yen, controlled bank deposits and bank assets of 111 billion yen, owned 320 industrial firms, and held part ownership in many others. At prewar exchange rates their holdings amounted to about \$30 billion.¹⁰ This is equivalent to almost half the total assets of the 200 largest industrial corporations in the United States before the war. Mitsui alone had direct investments in

173 companies, many of which had subsidiaries of their own, one such network including 185 firms. The operating capital of the parent company and its 22 major affiliates exceeded seven billion yen. Its holdings included mines, chemicals, ceramics, fibres, textiles, machinery and tools, paper, shipbuilding, transport and communications, utilities, metals, forestry, agriculture, fishing, commerce and banking.¹¹

Hirohito's wealth placed him in the highest Zaibatsu rank. According to a Japanese government report to Allied Headquarters, his holdings—exclusive of gold and silver bullion, jewelry, art objects, etc.—were placed at about 1.6 billion yen. He held stock in 29 companies and seemed to prefer the big banks. This accumulation does not include the holdings of 14 Imperial princes, nor the vast landed domain owned by the royal house.¹²

To preserve these vast holdings and safeguard the corresponding power naturally became the main objective of the Zaibatsu after the defeat. For this they had prepared well in advance. They were adept at playing the game of "moderates," at furthering the illusion at home and abroad that during the whole period of conquest they had acted as a restraining force upon the militarists, and had been compelled by the superior power of the army and the state to come along in the aggression. They could play this game all the more easily because dominant political and economic groups in Britain and the United States, especially the latter, also had a vital interest in perpetuating this myth.¹³ In this view, the old Zaibatsu, as distinguished from newcomers like the Riken trust and the Nissan interests with major holdings in the colonies, could be counted upon to provide a government equally serviceable in controlling the "revolution from above" and in affording free access into Japan for foreign capital.

Thus the use of the term "moderate" to distinguish an acceptable sector of the oligarchy became synonymous with the program of maintaining the *status quo* in Japan. Included in the camp of "moderates," as defined by the Anglo-American policymakers as well as by the Japanese ruling circles, were not only the older Zaibatsu, but also the Imperial Household and its

related institutions, and the leaders of the prewar political parties, which were effectively controlled by Mitsui and Mitsubishi interests. The only basic element missing from this picture is the military. These are presented as extremists who dragged Japan into her expansionist adventures, against the will of the Emperor, his advisers, the older and biggest Zaibatsu and the cream of the state bureaucracy. From this distortion there arises the fantastic notion that the elimination of the military extremists would be sufficient to guarantee a non-aggressive and peaceful Japan.

More than any other contemporary state, the Japanese state is characterized by the very close interweaving of all the component elements of the ruling classes. At no time in its modern history, even during the Meiji Restoration (1868-1889) or during the period of so-called parliamentary government in the twenties, was this oligarchy seriously altered by a democratic upheaval. The democratic revolution in Japan never came off. As F. Herbert Norman shows in his book *Japan's Emergence as a Modern State*, the Japanese state was formed by an alliance of the feudal classes with the merchant and banking capitalists.¹⁴ During the Meiji Restoration, when the present Emperor State was established, unification was imposed from above by a combination of banking princes and that part of the feudal clan leadership opposed to the central clan authority, the Shogunate. The Emperor institution was rescued from relative obscurity by these forces to serve as the pivot of an absolutist form of national unity. With the Prussian constitution as model, the Constitution of 1889, which was presented to the people as a gift from the Emperor, carefully safeguarded all the prerogatives of the oligarchy, including a special privileged position for the military in the state, and granted an extremely restricted parliament.

Peasant uprisings, the unrest of the declassed samurai (the military retainers of the feudal lords) and middle-class elements of town and city helped weaken the old feudalism. But the Restoration was essentially a bureaucratic "revolution," which removed some of the more restrictive feudal practices but which retained the feudal classes in a new combination of power. The

state which resulted from this alliance of the merchant and banking capitalists with the big landowners and the nobility persisted through the whole period of capitalist development. The structure of modern industry was erected upon the foundation of a semi-feudal agrarian system, and mainly at the expense of the peasantry through exorbitant land taxes, high rents and usury. Industrial development proceeded without an intermediate period of laissez-faire capitalism, with its corresponding democratic freedoms, and without producing a distinct class of industrial capitalists, separate and apart from the landowners and bankers, that felt compelled to destroy the feudal hangovers and to fight for power in the modern state.

Big industry, especially armament, was from the beginning a state monopoly, that is, a monopoly of the banking houses, the big landlords and the militarist bureaucracy whose interests were accommodated through the Emperor State. Industrialization began as a military necessity, as defense against the increasing pressure of the older and more powerful imperialist powers reaching deep into Asia and towards Japan, and also as defense against the still unruly clans and dissident feudal elements. Many of the strategic industries thus developed were later turned over to the Zaibatsu, a pattern which was to be followed during every succeeding war and in the exploitation of the colonies.

A powerful expansionist tendency immediately made itself felt. Japan provided only a very limited market. The establishment early in the Meiji era of an exorbitant land tax payable in cash with which to finance the military and industrial program of the state led to the rapid dispossession of the peasant landowners. Operating on a puny scale, burdened by high rents, high taxes and usurious interest rates, the landowning peasantry soon became the victim of big landlordism. Widespread tenancy resulted, and moreover tenancy of a semi-feudal type such as sharecropping. The landowner was often also a militarist, a merchant, a budding capitalist or a state bureaucrat. From this poverty-stricken, land-hungry, and debt-ridden peasantry the working class was recruited. The poverty of the countryside was duplicated in the factory districts in the form of extremely low wages. These basic conditions which resulted in an impoverished

domestic market changed little during the whole period of industrialization

In addition, the lack of raw materials in Japan for modern industry led the oligarchy to seek control of such sources as were available in Asia, particularly in Manchuria, Korea and North China. Moreover, this had to be done when the other imperialist powers had already penetrated into most of the colonial world, when the establishment of exclusive colonial spheres entailed a struggle with these powers, themselves seeking an open door into Japan. The militarists, many of them derived from the traditional warrior class of the old clan society, thus became an indispensable component of the ruling oligarchy. They served not primarily as servants of the state whose policies were determined by other classes, but as allies and partners of other elements of the oligarchy, with whom they also found a common interest as noblemen, landowners or capitalists.

The expansionist tendency was, therefore, deeply rooted in the Japanese social structure and in the Emperor state, even before the full development of monopoly capitalism, which provided its own additional impulse to expansion. The aggressive forces were stimulated further by the early successes of the war with China in 1894 and the war with Russia in 1905. As a result of these wars, Japan established its first important sphere in East Asia, seized control of valuable raw material sources, and was enabled to expand industry as well as the military and naval establishments. Exploiting the opportunities afforded by World War I, when the other powers were deeply engaged elsewhere, Japan enlarged her Pacific holdings and penetrated more deeply into China. Her attempt to extend into Siberia through intervention against the socialist revolution failed, and she was to receive additional rebuffs from the Chinese revolution.

These early successes helped stimulate internal economic development. Between 1913 and 1929, industrial production in Japan increased by 197 per cent, as compared with 70 per cent for the United States. While Japanese output remained small in comparison with the production of other nations, the power of the Zaibatsu was greatly increased by this expansion. From 1909 to 1927, the number of companies capitalized at over five million

yen grew from 38 to 687, the aggregate capital of these companies rose from 495 million yen to over eight billion yen, and the proportion of capital of the big companies to total capital rose from 36.2 per cent to 64.2 per cent.¹⁵ This industrial growth increased the relative weight of the Zaibatsu within the ruling oligarchy, and placed them in the central position with respect to the other elements that controlled the state. On the eve of the great economic crisis and of the decade of new aggression which led to the big war, the Zaibatsu had become the most influential group within the oligarchy.

However, the military cliques had also grown in strength, due to the increasing militarization of Japan. While many military and naval leaders were personally connected with the great Zaibatsu houses,* the officers' corps had been infiltrated with many new elements from the middle classes and the medium-sized landowners. These younger elements, reflecting a popular but vague opposition to the monopolies and connected with the jingoistic and fascist societies which emerged in the thirties, provided a new base within the army for the extremist sectors of the ruling circle. This was expressed as early as 1931, in the Manchurian "incident" which was provoked by the militarists before other ruling sectors had been fully won over to the venture. Following the failure of the military coup of February 1936, the most serious bid for power by the extremists, a new accommodation was reached between the military leadership, from which some of the more extreme elements had been retired, and the dominant Zaibatsu, who now felt that the time was ripe for more ambitious expansionist efforts. This new balance of forces led to the launching of the great China war in July 1937.¹⁶

This inner struggle for position and power does not mean that there existed a sharp cleavage arising from irreconcilable interests between the military and the Zaibatsu, or between other sectors of the oligarchy. "Moderates" and "extremists" were to be found within all groups, the military as well as the Zaibatsu, the state functionaries as well as the Court, although the military

* According to the *Mainichi Yearbook* of 1942, *Mitsui* employed 13 retired generals and admirals, *Mitsubishi* was using 11, and *Sumitomo* 8.

had more than their share of adventurers. If some of the older Zaibatsu were a little slow in advocating war against the big powers, it was because of their desire to exploit to the utmost all "peaceful" means of penetration into Asia and to undertake military action only when the major powers were deeply involved elsewhere. They were also influenced by their financial links with Anglo-American capital, by their large stake in foreign trade and in the non-war industries, and, above all, by uncertainty of victory over the top-ranking imperialist powers. It is notable that the attack on Pearl Harbor was not launched until after Hitler's attack on the Soviet Union and the approach of the German armies to the gates of Moscow. The Japanese had tested the Soviet strength in two undeclared but not minor wars at Lake Hassan (Manchurian-Soviet border) in 1938 and on Halhen-ho River (Mongolian People's Republic) in 1939, both of which were disastrous for the Japanese. Accordingly, they preferred to strike in the direction which offered the least resistance and promised the greatest immediate benefits.

However, the caution of the "moderates" before the big war did not prevent them from initiating the China war in 1937, when a so-called moderate cabinet was in power. Nor did they fail to exploit every military conquest and to enhance their own position within Japan in the course of every aggression. They shared fully with the military the dream of the Greater East Asia empire, they were the engineers of the pact with Germany, it was a government dominated by the older Zaibatsu and the moderate circles that carried on the war against China and made the preliminary preparations for Pearl Harbor, before Tojo took over the premiership to launch the attack. But at all times, the "moderates" played a cautious and farsighted game, of which the careful balance of power with the military was a part, with a view to assuring their retention of power even in case of defeat.

The Zaibatsu manoeuvred well. By the end of the war, they dominated the Emperor State more completely than at any time during the past two decades. They exploited the military defeat to diminish the role of the army and navy cliques in the state. Within the limitations arising from the defeat, they were

prepared to pursue their own imperialist aims in their role as "moderate" imperialists, seeking a mutually beneficial adjustment with the American expansionists.

3. THE ZAIBATSU TAKE OVER

The process by which the Japanese monopoly capitalists won complete hegemony over the Emperor State during the Pacific War is traced in illuminating detail by T. A. Bisson in his book *Japan's War Economy*.¹⁷ The big war required a rapid expansion of heavy industry, and this called for extraordinary measures of state intervention in the economy. In the United States and Britain similar problems were solved by turning the key control posts over to the main monopoly interests, and winning their support for the war effort in return for high profits, government financing of the expansion, and guarantees of postwar profits. But in Japan a sharp controversy immediately arose between the Zaibatsu and the military as to how the state controls were to be applied and by whom administered. This controversy raged from mid-1940 until October 1943, when the unfavorable turn in the war was exploited by the Zaibatsu to establish their own control policy in full.

The campaign for a "new economic structure" began in 1940, as part of the preparations for the big war. The political "renovation" which accompanied diplomatic and military preparations included the dissolution of the trade unions and the establishment of single-party rule. The main question which had to be solved before the attack on Pearl Harbor was to establish the relative position of the Zaibatsu and the military in the control of the rapidly expanding war economy. With the exception of a few extremists of the Manchurian Army, the military leaders favored a middle-of-the-road course, involving limited state intervention to assure military requirements. The monopolists welcomed a greater integration of the economy, and they were not averse to further intervention by the state providing they were at all times certain that they would remain in complete control and could use the state authority to cartelize the

economy under their own domination. No basic difference was involved on the war program. It was a question of the balance of power among the elements of the oligarchy. As always, these differences were overshadowed by the imperative necessity of reaching an accommodation within the ruling circles to maintain power and assure the success of the war venture. But the Zaibatsu were also determined to assure their own dominant position, no matter how the war turned out.

The Zaibatsu control plans were no different from those usually advocated by monopoly groups in other countries. They wanted complete cartelization of the economy under their own regulation, with a minimum of interference from the military and the state bureaucracy. This campaign was spearheaded by the Japan Economic Federation, the country's peak cartel organization. In the form of a Memorial to the Yonoi Cabinet in May 1940, the Federation advanced the Zaibatsu plan for the "new structure" which was eventually to be adopted by the government. Their central aim was expressed plainly:

"In order to liquidate all these defects of bureaucratic control, the existing private economic bodies should be unified and adjusted so that they may be reorganized into powerful cartels in the major industrial branches. And these cartels should be granted a wide scope of authority for control purposes so that private interests may be encouraged to display their creative initiative and to enforce autonomous control on their own responsibility."¹⁸

This plan for self-regulation of "private enterprise" clashed with the program of the Army and Navy for a "perfect defense state," in the sense that the military wanted to use the cartels to enforce state controls, while the Zaibatsu wanted to use the state authority only to force the independents into the cartels, which were to be completely self-governing. The Zaibatsu proceeded independently to round out their cartel structure along these lines. By the middle of 1940, the Japan Economic Federation had already established a series of Cartel Conferences, meeting twice a month, in each major industry. They set up their own controls, and announced they would seek state sanction for the Conference decisions. By the end of the year

they had won the first round with the militarists. The Cabinet outline for the "new economic structure" promised that government management of private enterprise would be permitted only in special cases and that private enterprise would remain as the basis of the new order. A month before Tojo became premier, the Major Industries Association Ordinance, which incorporated most of the Zaibatsu program, became law (September 1941).

Under this law, Control Associations were to be established for each industry with authority over production and distribution, labor, raw materials and capital investments. The President of each association was vested with immense powers, but the means of his selection was such as to assure his designation by the leading Zaibatsu in each industry. By this time most of the industries represented in the Cartel Conference had already formed their own control organs, and these became the Control Associations under the new law.

As the cartel organizations were formed, the weaker and less efficient firms disappeared at a rapid pace. The scale of this displacement is indicated by the announcement of a government campaign to "guide and train" some 12,000 merchants and industrialists who had been ejected from the "new structure." That many more would soon be added was plain from a special plan of the Cartel Conference "to cause the minor industrialists to join the heavy industries" and to establish "control over management and all idle machinery in the light industries." This scheme was given state sanction by a Renovation of Enterprise Ordinance which granted the Ministries the right, among other things, to order companies to absorb specified firms. "Manufacturers without whom the nation could do very well must be reduced in numbers," said the Commerce Minister.

These measures sufficed during the first year of rapid Japanese victories in the Pacific. During this period, the Zaibatsu rounded out their cartel empire at home. The complete cartel framework as sanctioned by the new laws was established in industry, trade and finance by the end of 1942. The prewar Cartel Conference had become the Major Industries Control Association Council. A Foreign Trade Control Council Asso-

ciation and the National Financial Control Association, similarly dominated by the Zaibatsu, operated in their respective fields. But the monopolists had not yet attained their full program

This required a single central control agency, thoroughly dominated by themselves, which would have complete power over the cartels in the separate industries and branches of the economy, as well as over all other state agencies, including the Planning Board of the Cabinet, which was still dominated by the military. This opportunity came in 1943, when Japanese losses in the Pacific necessitated major concentration upon the production of ships and planes. The change-over encountered many difficulties in the conflicting controls of the various Ministries and industrial associations. To make the changes required, Tojo demanded dictatorial powers. While he was given more power than any previous militarist-premier, the Zaibatsu exacted in return complete control of the war economy.

To begin with, Tojo was required to accept a Cabinet Advisers Council of seven, all of them big business magnates. This inner cabinet was to advise the government on all questions of policy, and it can be assumed that the government could undertake nothing without the consent of this special organ of the Zaibatsu within the state. Equally important was the creation of a Munitions Ministry, formally headed by Tojo but actually under the control of a Zaibatsu representative. With the exception of shipbuilding and ordnance, control of which remained with the Navy and War ministries, the new Ministry was given authority over all war industry. It controlled directly 574 designated munitions companies in Japan and 100 in Korea and Formosa. It had authority over production, equipment, labor, raw materials and investment, it could order the dissolution or merging of companies. In addition, the militarist-dominated Planning Board within the Cabinet was completely eliminated.

This was a real triumph for the Zaibatsu. Tojo, the "military dictator" who enjoyed unprecedented powers, was unable to subordinate the Zaibatsu, instead the military had been effectively subordinated to the monopolists. On this, Bisson says:

Premier Tojo had in no sense established either a military or a government dictatorship over big business. The presidents of the Control Associations, i.e., the leading Japanese monopolists, had graduated. They were now entrenched in a privileged position right within the Cabinet. . . This was indeed a marriage of Japanese big business and the military on an altogether new plane of administrative power and responsibility. Past experience in matters affecting industry in Japan proper, however, left little doubt as to who would be the senior partner in this *mariage de convenance* ¹⁹

Having graduated into the dominant position within the Cabinet, the Zaibatsu used it to insure themselves against the consequences of defeat in the war. Such a move was the so-called nationalization of war industry, especially the airplane plants and other favored targets of the American bombers. The Zaibatsu-sponsored movement for nationalization of war industry arose at the beginning of 1945, when the B-29's were striking from close range. With the state control agencies firmly in their hands, the monopolists wanted government management of the war plants as a means of assuring state redemption of damaged property. Equally important was their desire for more stringent control of the workers, who became increasingly restless as the war reached its climax. The factories were to be "leased" to the government for the duration. State management of the privately-owned plants was to be provided through a "management organization" controlled by the Zaibatsu. During the last months of the war, under the "moderate" Suzuki Cabinet, this Zaibatsu-nationalization was greatly extended. War losses were assumed by the Treasury while profits as usual were guaranteed the Zaibatsu.

These clever manipulations of industry between the Zaibatsu in the board rooms and the Zaibatsu in the Cabinet offices suggest a comparison with the steps taken after the defeat to "abolish" the big holding companies. The Shidehara Cabinet, which ruled under MacArthur, was a top-notch "moderate" government from which the most obnoxious militarists were absent, while the older Zaibatsu were most efficiently repre-

sented. A similar "voluntary" reorganization had taken place within the main Zaibatsu companies by which the leading personnel was carefully reshuffled to present an impeccable "moderate" facade. Following MacArthur's edict of November 6 ordering the government to "democratize" industry, the Cabinet decreed the dissolution of the Big Four holding companies, taking care to explain that the Zaibatsu were already engaged in this task voluntarily and had "requested" the help of the government. The announced plan was to issue government interest-bearing, 10-year bonds in return for the common stock of the companies.

Simultaneously, American headquarters let it be known that the Zaibatsu stocks would be held by the Japanese government for the "public." In the meantime, the corporations were prohibited from re-entering international cartels, and the Supreme Commander retained final authority over the decisions of the liquidation commission. The "public" was told that there would be no early action to market the stock. Whether foreign capital would be permitted to buy blocks of Zaibatsu shares was to be a "matter of inter-Allied policy," according to a Headquarters statement.²⁰ Pending this decision, the Zaibatsu government was to be the guardian of the Zaibatsu stock, while the plants remained under the management of the monopolists, aside from munitions enterprises scheduled for scrapping. However, most of the ordnance-making plants are government owned, as is a major portion of the steel industry. Thus, whatever arrangements may be made for the scrapping of war plant, for the transfer of equipment as reparations or for the limitation of production in certain branches of industry, these are linked directly with the redistributing of Zaibatsu shares and the seizure of Japanese assets abroad.

Notwithstanding early strictures on purchase of Zaibatsu stock by foreign capital, it can be assumed that the American monopolists were staking out claims to the Zaibatsu empire in advance. In Japanese terminology the word "public" has come to mean the corporations; and it is in that sense also that the decree ordering the Zaibatsu stocks "held for the public" should be understood.

Before the war American corporations had made some headway in Japan. But total American investments did not exceed a half billion dollars, of which \$61.5 million was directly invested by United States corporations in enterprises controlled by them, \$178.1 million was invested in Japanese corporations, and the rest was loaned to Japanese government agencies.²¹ Together with these investments there naturally developed some cartel and patent arrangements between American and Japanese companies. According to an early survey made by occupation authorities in Tokio, extensive ramification existed before the war between Japanese and Anglo-American capital. Through its Canadian affiliate, the Aluminum Co. of America owned 30 per cent of the stock of Sumitomo aluminum. International Telephone and Telegraph together with Westinghouse had patent agreements with the Sumitomo metal industries on magneto steel. Westinghouse also had stocks in the Mitsubishi electric. A subsidiary of I.T. & T. owned 20 per cent of the stock of the Sumitomo electric industries, and reserved the right to elect one-fourth of the directors. Tidewater Associated Oil Co., tied in with Standard Oil of New Jersey, held shares worth two million dollars in the Mitsubishi Oil Co., and supplied crude oil to that company before Pearl Harbor. Close connections also existed between the Big Five banks in Japan and United States banking interests. Other American corporations mentioned include Libbey-Owens-Ford, General Motors and Standard Oil of New Jersey.* British, German, and other interests were not made public.²²

This is a foothold that the American corporations will not readily surrender. On the contrary, they will undoubtedly attempt to obtain a lion's share of the Zaibatsu holdings, now that the door has been thrust wide open to American penetration. As in Germany, this will have the effect of creating a new vested

* This report is incomplete. For example, according to evidence presented to the Kilgore Committee of the Senate, National Lead Co., a large American corporation, had important interests in the Japanese chemical industry, jointly with I.G. Farben and a French company. In March 1941, National Lead helped its Japanese partner evade the British embargo against the shipment of titanium from India to Japan, by itself sending 700 tons at a time when this essential chemical used in paints was scarce in the United States (*Titanium Hearing*, Washington, 1944). It is also known that General Electric had invested in two Japanese electrical equipment concerns.

interest in the maintenance of Japanese heavy industry and of the monopoly structure. American participation in the Zaibatsu network will not diminish its aggressive qualities. The "evil roots" will have to be eliminated by a popular democratic movement from within, carrying through the democratic revolution which has not yet occurred in Japan.

4. THE COLONIAL EMPIRE

If one of the major objectives of American policy is to maintain the imperialist position in Japan as a special preserve for the United States corporations, we can be certain that an attempt will also be made to take over a major share of the Zaibatsu interests in Asia. How successful this attempt will be depends primarily upon the progress of the democratic and independence movements in China and the colonies. Changes in the colonial structure will also affect the form of American penetration, that is, what other powers and forces it may choose as allies in this drive.

From the inter-imperialist scramble for exclusive spheres in Asia, the Zaibatsu may hope to salvage a portion of their holdings in China and the colonies, by collusion with one or another imperialist power. The American interests have the great advantage of ground-floor occupation of Japan, from where they can attempt to manipulate the Zaibatsu network in Asia. They also enjoy the advantage of operating within a new and great sphere of influence which is in the process of being established by the United States in China.

The Japanese corporate network in Asia was an appendage of the highly trustified and cartelized economy of Japan proper. It was devoted to the control of sources of raw materials for Japanese war industry, to the development of communications and defense works for the conquest of Asia; and to the exploitation of the native populations. The oldest colonies, Korea and Formosa, were turned primarily into food granaries for Japan. In addition to rice, Formosa provided sugar for the entire empire. Six Japanese corporations monopolized the sugar indus-

try and allied enterprises, including the railroads, while a single corporation controlled all electric power and the few industrial plants that were permitted. Of the total corporate wealth (357 million yen in 1939), the Japanese controlled 90 per cent. Formosa's economy was so completely annexed to Japan that barely five per cent of her imports came from outside Japan, and only a trickle of minor exports was permitted to other countries.²³

Korea was situated within the innermost Japanese zone of empire, and besides is located strategically in relation to China and the Soviet Union. More attention was therefore paid to industrial development and to the exploitation of strategic raw materials, particularly after the invasion of Manchuria. While Korea remained predominantly a rice granary, and the Japanese imposed an ever more burdensome landlordism upon the peasantry, great emphasis was placed upon certain branches of war industry in connection with industrial expansion in Japan proper. New railroads were built in northern Korea and along the coast, harbors were improved, and the mining of minerals, especially iron-ore and coal, was expanded. Industrial development centered on electric power, the metal and chemical industries and new enterprises, largely in textiles and food stuffs for the Korean and Manchurian markets. Some indication of the extent of industrialization before the big China war is given by the increase of workers employed in the factory industries from about 100,000 in 1931 to over 200,000 in 1937. Between 1910 and 1938, the value of industrial production rose from 31 million yen to 1,140 million yen. During the war years greater expansion of industry, communications and mining occurred.

The Zaibatsu maintained a firm grip over the Korean economy. Excluding government enterprise, 89 per cent of corporate business was controlled by the Japanese in 1938. Mitsubishi dominated the iron-ore and pig-iron production, while the Nissan interests, one of the "New Zaibatsu," controlled gold-mining. But the most important trust in Korea was Noguchi, also part of the "New Zaibatsu." It monopolized fertilizer, synthetic fuel and electric power production, and also held a large interest in mining. The share of the Koreans diminished

steadily Koreans had about 21 per cent of the total corporate capital in 1923, but this dropped to 11 per cent in 1938. The Japanese monopolies took over the three electric power stations owned by Koreans, while the Korean banks were reduced from 12 with a capital of 12 million yen to three with a capital of five million yen.²⁴

In the more recently acquired territories, with the exception of Manchuria, Japanese policy concentrated almost exclusively upon the maximum exploitation of raw material sources and the operation of existing industrial enterprises and communications systems. In occupied China, Japan took over the richest coal deposits in the world, valuable sources of iron-ore and of industrial salt, needed for the rayon and chemical industries. Their acquisitions included the cotton textile industry in North and Central China, the bulk of China's flour mills, the entire wheat crop, a portion of the silk industry, and half of the tobacco industry. They also acquired important ports and communications. While effective exploitation was hindered by the Chinese resistance movement, extensive and valuable holdings passed into the hands of the Japanese. However, exploitation of this region remained largely a military operation, and economic development was taken over by the semi-governmental development corporations, which worked closely with the Army.²⁵

In the most recently acquired territories of Southeast Asia, the Japanese barely had time to exploit effectively the rich sources of raw materials, let alone to undertake additional development. Within a year after these areas had been conquered it was already becoming difficult to maintain lines of communications with the homeland. Whatever machinery and equipment could be spared from the inner zone was allotted to shipbuilding in Hongkong and Singapore, and to the extraction of raw materials like bauxite, chrome, nickel, lead and zinc. However, the Zaibatsu did manage to lay their hands on the more valuable properties. Mitsubishi, for example, was given control of the Laokoy phosphate deposits in Indo-China, and took over transshipping and shipbuilding in Singapore under army supervision. Mitsui received the Lepanto copper mines and other mineral resources in the Philippines, and took over shipbuilding faci-

lities at Hongkong²⁶ By September 1942, fifty Japanese firms were already operating in the Philippines²⁷

The jewel of the Japanese empire was Manchuria It provides a unique example of a colonial economy upon which was imposed an extensive industrial superstructure as an extension of the highly centralized economy of the imperialist power This unusual development in the sphere of colonialism was mainly a strategic undertaking, a vital preliminary to control of Greater East Asia and, it was hoped, for subjugation of the Soviet Far East Although the economic development of Manchuria fell far short of the grandiose goals originally set, the possession was turned into a powerful military base, backed up by internal resources and war industries It supplied in large quantities the raw materials needed in Japan proper, in addition to feeding Manchurian industries Besides, Manchuria's war industry became an important supplement to the Japanese war economy, according to one estimate, providing as much as one-third of the industrial production of Japan²⁸

In every other sense Manchuria or "Manchukuo" remained typically colonial The enslavement of the native population, the strict control of the backward agrarian economy, and the complete Japanese monopoly over every branch of economic activity were typical of the most aggressive type of imperialism In many ways, the Manchurian development represented an effort on the part of the Japanese oligarchy to duplicate in a colonial country of the greatest strategic value the characteristic feature of Japan—a modern industrial superstructure upon a semi-feudal base

Besides being richly endowed with natural resources, Manchuria is ideally located from the viewpoint of an aggressive power with designs upon the Soviet Union as well as China proper The Soviet-Manchurian border extends for some 2,000 miles in a deep curve into the most fertile and densely populated regions of the Soviet Far East Surrounded by Soviet territory on three sides, the vast Manchurian plain offers the advantage of interior lines of communication which radiate out to the most vital centers of Siberia "By virtue of these geographical conditions," writes a Soviet commentator, "any aggressive nation that

controls this country enjoys great facilities for an attack on the Soviet Union. An end must be put once and for all to a situation in which Manchuria may serve as a base and center of machinations against vitally important regions of our country."²⁸

That this was the ultimate end to which Japan developed Manchuria was emphasized by the extensive and precise military preparations. Many new lines of communications were built to the Soviet border, including the extension of railroad spurs and many highways. Solid fortifications, airfields, telephone lines and military settlements, manned by 200,000 Japanese "farmers," were established in this area. Seaports were enlarged and new ones constructed. By the end of 1941, at least one million Japanese soldiers were stationed there, together with 1,000 tanks and 1,500 aircraft. At the height of the military concentration, the Kwangtung Army in Manchuria possessed one half of all Japanese artillery, nearly two-thirds of the tanks at the disposal of Japan, and three-quarters of the total Japanese cavalry.³⁰

This great military concentration was supported by war industry in the interior. If Japanese claims are to be believed, coal production reached 50 million tons, as compared with 10 million before the occupation, which would place Manchuria sixth among coal-producing nations. More sober estimates, however, place coal production at about half the Japanese figure. New electric power stations built by the Japanese put Manchuria at about the level of France in annual production. By 1944, pig-iron output from local ores may have reached the annual rate of three million tons, while steel was being produced in excess of one million tons. During the occupation, railroads increased from 3,460 miles to 9,300 miles, exceeding the track-age of all China. According to the Japanese, auto roads were increased from 2,000 miles to 40,000 miles.

Around the Mukden Arsenal a whole network of armament industry was constructed, including facilities for making planes, autos, machinery and locomotives. In addition, chemical and cement industries, as well as utilities were developed. The extent of industrialization is indicated by the growth of Japanese investments. Between 1932 and 1943, these increased from 1.7

billion yen to 7.1 billion yen, exclusive of government enterprises. The Manchurian Industrial Development Co., which came to control the major portion of heavy industry, had a total investment of 2.9 billion yen in 1944. Together with the investments of other Japanese corporations, the total capital in industry alone may have reached five billion yen by 1945. This is equivalent to the total British private investment in India in all undertakings—agricultural, transport and utilities as well as industry. Many plants were also transferred from Japan to Manchuria in 1944-45 as American airfleets struck at the homeland.³¹

The control system established over the Manchurian economy was at first directly under the militarists, in accordance with their plan for a "national socialist" state. "Special companies" were officially designated, and were granted a complete monopoly within each industry. These were placed under the supervision of the Manchukuo government, which meant the Japanese military. By 1938, forty-one designated corporations were already operating. The main bloc of capital for these companies was provided by the state. But contrary to a widespread impression, these enterprises did not remain state owned for long. Japanese history repeated itself in Manchuria. The private monopolies were soon invited into the Manchurian corporations, just as during the early period of Japanese industrialization the big enterprises established by the state were turned over to the Zaibatsu after an initial period of development.

As early as 1938, according to an official register, complete state monopolies existed only in the mining of strategic ores, in the power industry, communications and railroads, although the Yasuda Bank had been granted a small share in the all-powerful South Manchurian Railway Co. The previous year great industrial interests developed by the state were turned over to a new corporation, the Manchurian Industrial Development Co., in which the Nissan trust was given an equal share with the Manchukuo Government. Through this company within a year the Nissan monopolists held the controlling or dominant interests in coal and gold mining, steel production, light metals and auto. The Okuro monopoly retained its old

iron-ore and smelting works, while Sumitomo was edging in on light metals. Mitsui and Mitsubishi took over oil refining, and were also finding a place in the production of autos, synthetic fuel, planes, and even in the Mukden Arsenal, the holy of holies of the militarists³² After the outbreak of the greater China war, the military relaxed their control sufficiently to encourage greater investment by the Zaibatsu, the old as well as the new

As the Pacific War progressed, the Zaibatsu extended their control of the colonial network, and tied it in more closely with their corporate structure in Japan proper Zaibatsu exploitation of the loot empire took two principal channels One of these was through the various development corporations established by the government for nine main colonial regions of greater East Asia Capital was contributed equally by the state and the Zaibatsu, and each of the development companies set up subsidiaries for various branches of the economy The other main channel was through the direct control of separate enterprises either established by the private monopolies in these regions or taken over directly by them from the military But the situation was not entirely satisfactory to the Zaibatsu in the areas overrun since 1931, where the military were able to retain a greater degree of control than in Japan proper and in the old colonial sphere

Simultaneously with the victory of the Zaibatsu control plan in Japan, the great monopolies were also able to diminish the interference of the military in the economy of the more recently conquered areas As a means of obtaining complete domination, the Zaibatsu sought to extend the Control Associations over the whole East Asia sphere, but here they met the opposition of the military leaders who wanted a voice in the choice of industrialists to be admitted into their zones and also general supervision over their activities This opposition was gradually overcome Many Manchurian companies became "voluntary" members of the Control Associations in Japan In other regions co-ordination was established through the various development companies, like the North China Development Co and the Central China Promotion Co, among others. New control associations, linked with parallel organs in Japan, were set up in

South East Asia, like the Daily Necessities Control Association in the Philippines, the Sugar Control Association for the southern regions, and a Timber Control Association. The Life Insurance Control Association allocated territories to Japanese firms in North and South China, while a similar organization allotted various territories to the newspaper publishers

The most important victory was scored in November 1942, when the Greater East Asia Ministry was formed to absorb older agencies like the Manchurian Affairs Bureau and the China Affairs Board, both of which had been controlled by the military. The new Ministry had administrative power over all business affairs outside of Japan proper, Korea, Formosa and Sakhalin. The military were ousted from their former dominating position, and the new Ministry, now under civilian control, became more directly an agency of the Zaibatsu. Through it they were able to co-ordinate their policy for the conquered regions, and to distribute the seized properties and assets to their own satisfaction. The Greater East Asia Ministry played the same role with respect to assuring Zaibatsu control in the newer colonial empire, as the Munitions Ministry played with respect to the war economy in Japan.

Thus by the end of the war the Japanese monopolists held title to enterprises throughout East Asia. This vast economic combine was dominated by the same small group of Zaibatsu which controlled the Japanese economy. In Southeast Asia, the former owners will undoubtedly repossess many of these enterprises. In China also, the British as well as the Chinese capitalists will seek the return of their mines, mills and utilities. However, the American monopolists will exploit to the utmost the great bargaining power and the "right" to possession arising from the American control of the assets of the Zaibatsu. General MacArthur was instructed by the White House to obtain a complete count of all Japanese external assets located in the territories detached from Japan, and to hold these "for disposition according to the decisions of the Allied authorities." The same directive declared, under the title "Equality of Opportunity for Foreign Enterprise Within Japan":

"The Japanese authorities shall not give, or permit any

Japanese business organization to give, exclusive or preferential opportunity or terms to the enterprise of any foreign country, or cede to such enterprise control of any important branch of economic activity.”³³

It does not take too much imagination to divine the overall strategy hidden in this directive. With the Americans in on the ground floor in Japan they can very well determine what “equality of opportunity” is to be granted rival interests in the monopoly structure in Japan, while pressing for their own “equal opportunities” to the Japanese assets in Asia. Especially in the inner zone of China, Korea, Formosa and Manchuria, American big business will seek to take over a dominant position in the closely integrated Zaibatsu network, even if it may mean sharing control with the Japanese capitalists.

Such an attempt would naturally evoke throughout these areas the resistance of the democratic movements. Especially dangerous to the peace of the world would be an attempt by the American monopolists to take over the former Japanese position in Manchuria, to maintain the connection between the imperialist base in Japan with this strategic outpost in the heart of Soviet Siberia. The possibility of such a development was undoubtedly foreseen by the Soviet Union when it took good care to crush completely and intern the Kwangtung Army, and to dismantle the arsenals and war plants in Manchuria. Apparently this was also a prominent consideration in the Sino-Soviet agreement for joint ownership and management of the Manchurian railroad systems, as well as their associated enterprises, and the joint supervision of Port Arthur and Dairen. Nevertheless, the American expansionists operating jointly with their allies in the Kuomintang or with the Zaibatsu, perhaps with both, will not refrain from the attempt. The maintenance of the imperialist base in Japan is linked with the effort to establish a big American sphere in Asia.

IV. The United States as a World Power

THE UNITED STATES emerged from the war as the strongest imperialist power, predominant in both the economic and military spheres. This is one of the most significant aspects of the new world situation following the defeat of the Axis.

Already on the eve of the war the United States was the greatest industrial power in the world, the premier exporter of both goods and capital, and the wealthiest national sector of the world market. While other leading countries suffered the devastation of war and the loss of productive wealth, the wartime expansion of industrial production in the United States proceeded at a rate unprecedented in American economic history. These parallel developments increased further the relative weight of the United States in the world economy. Simultaneously, the emergence of the United States in the course of the war as the leading naval and air power, and its participation in the conflict on a global scale, placed it in a position to play a greater political role than after World War I.

The old, prewar positions have become antiquated and no longer correspond to the actual relation of economic and military forces. Economically speaking, this applies especially to inter-monopoly and cartel relations in connection with the redistribution of markets and spheres of capital penetration. It was to be expected that American big business, seeking to exploit the military victory to the full in its own interests, should immediately attempt to take over positions throughout the world, by whatever methods appeared best adapted to the political temper of the times. The formation of American policy on the key economic and political problems of the peace is

affected basically by the underlying tendency to consolidate and expand the world economic position of the United States.

1. WARTIME INDUSTRIAL EXPANSION

Since the turn of the century the growing world role of the United States was based largely on its abundance of natural resources and the great scale and efficiency of its industrial production. During the war the output of American industry more than doubled. The pace of expansion, at over 15 per cent annually, exceeded the record established during the recovery from the crisis of the early thirties, and was more than double the rate of increase during the first world war. A close examination of the elements of the unprecedented expansion reveals its one-sided and uneven nature, and shows its distinctly temporary character. Nevertheless, it does demonstrate the great potential of the American economy.

This expansion took place when the United States had already achieved during peacetime the premier world position as an industrial producer. In fact, that lead was already so great that no other country could claim to be a close second. The relative weight of the United States in the world economy during the prosperity years of the interwar decades is shown by the following:

1 In the years 1925-1929, the United States accounted for 48 per cent of world industrial production (excluding the Soviet Union). This is calculated according to net value of production, and the percentage would undoubtedly be less if it were measured by volume of production. Nevertheless, United States production was already approaching half of total industrial production in the capitalist world.

2 A rough computation places United States national income in 1929, in terms of dollars, as high as in 23 other countries combined, including the United Kingdom, Germany and France. Real income was less, due to the higher prices for goods and services in the United States. But this calculation does show the important role of American purchasing power in the world.

economy The United States was by far the richest single market in the world

3 In 1927-1928, the United States share in the consumption of nine principal raw materials and foodstuffs was 39 per cent of the total consumption of these products in the 15 most important commercial nations This indicates the leading role of the United States as a consumer of world raw materials

4 During the entire interwar period, the United States was the first exporting nation, accounting in 1929 for 15.6 per cent of total world exports Her share of world imports was 12.2 per cent, exceeded only by the United Kingdom The United States was easily the leading importer of raw materials

5 During the period 1919-1929, the United States provided more new capital abroad than the total provided by the United Kingdom, the Netherlands and all other capital-lending countries combined ¹

These comparisons are for the years of prosperity, during the great American boom which preceded the Great Depression They should be viewed in the light of the marked instability of the American economy, which gyrates between peaks and depressions much more violently than the economies of the other countries With this in mind, the temptation will be avoided of picturing the development of the American economy as a smooth and uninterrupted progress to ever higher levels.

The magnitude of the wartime expansion is indicated by the War Production Board's estimate that the physical volume of industrial production had increased about 120 per cent between 1939 and 1944, and that the output of finished manufactured goods, taken separately, rose over 150 per cent.² William L. Batt, citing the "stratospheric" figures of production in planes, tanks and other equipment, stated that during wartime the United States produced at a rate approximately "equal to the combined total production of all our Allies and enemies"³ Manufacturers' shipments,* which are a good indicator of

* Since 1939, shipments of transportation equipment—which includes aircraft, shipbuilding and railroad equipment—increased 25 times Electrical machinery increased about five times, other machinery four times, automobile and rubber products, three times, iron and steel, non-ferrous metals, chemicals and food rose anywhere from two to two and three quarters times.

industrial activity, in 1944 reached a new high of \$156.6 billion, amounting to 80 per cent of the total value of goods and services produced in the country.⁴ Steel production, which provides the sinews of heavy industry, reached 89.5 million tons in 1944, the largest in the history of the industry. This figure exceeds the steel production of the whole capitalist world in any year between 1930 and 1936.

At the same time, and side by side with its war production, the United States was the only country which increased the output of peacetime goods. In 1944, the American people bought by value 58 per cent and by volume 20 per cent more goods and services than in 1939.

Even more significant than the volume of goods produced, was the creation of new industrial capacity. Over \$25 billion of new plant and equipment was added to American industrial capacity, increasing the over-all capacity of industry by at least 40 per cent. Not all the new plant can be considered a permanent addition to the American economy. How much of it would be converted to peacetime production and what proportion would be scrapped still remained to be seen. But an additional productive plant had been created, exemplified—to take only one instance—by a 50 per cent increase in the number of machine tools available for industry.⁵ According to one reliable estimate, the United States produced facilities for manufacturing 12 to 15 times as many machine tools as in the prewar period.⁶

An even more permanent and equally significant wartime development was the rise in the productivity of labor. The best measure of the efficiency of an economy is labor productivity. This is the resultant of technological advance and intensity of labor. The latter is determined by the amount of physical and mental effort which the worker must exert in the production process. Technological innovations in industry usually bring with them, especially in the mass production industries, a further rationalization of the labor process which, as in the conveyor system, simplifies the number of operations which a single worker performs but at the same time increases his intensity of labor. Technological advance involves a combination of factors, such as the effective utilization of electric power, use of new substitute

and improved materials, new mechanical and chemical processes, increased speed and capacity of machines and new scientific methods for training and utilizing labor power

The increase of labor productivity is especially marked in the development of the American economy.* Furthermore, the tendency is for labor productivity to increase even when the level of production declines. Between 1929 and 1939, declines in production were accompanied by a marked increase of labor productivity, as measured by output per man-hour. In the manufacturing industries during this decade, productivity increased 32.3 per cent while production declined by 0.5 per cent †

In the interwar years, the increase in productivity was accompanied by a decrease in the absolute number of workers employed in manufacturing industry, even during the years of increasing production. In the boom years of 1923-1929, the volume of manufacturing production increased 12.6 per cent, output per wage-worker increased 20.5 per cent, and the number of wage workers *decreased* by 7.6 per cent. This was a new trend in American industry—the decrease of the total labor force even as production increased. It resulted from increased labor productivity. As a writer for the Temporary National Economic Committee put it, "High productivity and rapidly expanding production brought instability of employment and uncertainty of income to many, during this era of business prosperity" ‡

During the war expansion, labor productivity tended to rise at an even faster pace. This is indicated by the fact that while the output of finished manufactures rose more than 150 per cent between 1939 and 1944, the number of workers employed in manufacturing industry increased only 60 per cent. Average weekly hours per worker rose during this period by about 20 per cent, which accounts only in part for the gap between employ-

* From 1919 to 1929 the output per worker employed increased at an average annual rate of 3.8 per cent, as compared with 1.7 per cent per annum during 1899-1914.

† This tendency was even more marked in mining and transportation. In bituminous coal mining, productivity increased 31.5 per cent but production went down by 27 per cent; in anthracite, productivity increased 79 per cent while production declined 31.2 per cent; in steam railroads, productivity increased 31.1 per cent as production declined by 25.8 per cent.

ment and production. According to the War Production Board, the rise of labor productivity during this period was about 25 per cent, accounting for about one-third of the total increase in the production of finished goods. This would place the annual rise at about 4.2 per cent for all manufacturing industry, as compared with 3.2 per cent in the prewar decade.⁸ Popular support for the war was an important factor, as indicated by the much greater productivity of the munitions industries. In these industries, increase in the output per worker between December 1942 and April 1944 was estimated at from 30 per cent to 35 per cent by J. A. Krug, Chairman of the War Production Board.⁹

Thus, with respect to both industrial capacity and efficiency of labor, the wartime expansion had further increased the potential role of the United States in the world economy. American productive capacity is undoubtedly well over half, and probably closer to 60 per cent, of the industrial capacity of the entire capitalist world. In addition, the national income, even allowing for the price rise, had grown considerably, setting new records for the size of the American market. During the war, the United States had also emerged by far the leading world exporter and importer. And she had greatly enhanced her position as the world's largest creditor nation.

For how long could this advantage be maintained? To what uses would it be put?

2. INSTABILITY OF THE AMERICAN ECONOMY

How much of the wartime expansion would prove permanent depended primarily upon the depth of the cyclical economic crisis, which was certain to come during the peace, and the measures taken within the country and on a world scale to cope with the effects of the crisis. The instantaneous appearance in America at the end of the war of a reconversion crisis was a warning of the approaching crisis of overproduction, which threatened to engulf the entire capitalist world.

In view of the greatly increased weight of the United States in the world economy, a crisis in America would immediately

affect all other capitalist countries even more catastrophically than in 1929 And, conversely, the course of the crisis in the United States would be equally influenced by the economic and political conditions obtaining in the rest of the world

In addition to the elements of crisis which had been accumulated during the extraordinary wartime expansion, the American economy is afflicted with a deeply rooted propensity for violent fluctuations This has been generally noted in economic literature, especially as it might affect the postwar world economy.

A recent study of the Department of Commerce shows "that the amplitude and vigor of industrial fluctuations were considerably more pronounced in the United States than in foreign countries during the interwar period" For example, between 1929 and 1932, at the depth of the economic crisis, industrial production in the United States fell by 46 per cent as compared to a decrease of 27 per cent in the rest of the capitalist world¹⁰

A leading American liberal economist, Alvin H Hansen, stresses the "menace" of American economic stability to the rest of the world.

It is, I think, a fact that the extraordinary instability of the American economy presents one of the most serious problems confronting Europe and, indeed, the whole world The great depression itself was, of course, a result of the interplay of a great many factors, partly internal and partly international, but there can be little question that the tremendous investment boom of the twenties in the United States (and in other countries fostered by American foreign loans), the succeeding high degree of temporary saturation and the ensuing collapse in the output of fixed capital goods, particularly in this country, were the central core of the great world depression and determined in the main its intensity and duration . . .

A violently fluctuating American economy is a menace to economic stability in the rest of the world A chronically depressed America, unless the world can in some manner isolate itself from this depressional influence, tends to infect other countries.¹¹

Hansen's view was shared by many others, especially abroad. Fear of a postwar economic crisis in the United States, with its inevitable effect upon world economy, dominated all economic discussions in Britain. From the experts of the Federation of British Industries to liberal economists like Sir William Beveridge, the first emphasis was placed upon full employment in the United States, as the base of world economic recovery. The warning that the United States will "export unemployment and its breadlines" recurred often, and this warning was merely a reflection of the deep concern caused by behaviour of the American economy during the interwar years. Concern was deepened by the apparent indifference among big business circles in the United States to the kind of governmental and political action which would be required to mitigate the effects of a postwar crisis.

After a trip to the United States in late 1943, the prominent Swedish economist, Gunnar Myrdal, wrote: "It is to be expected that America after the end of the war . . . will experience a high degree of economic unrest. . . . The economic development of America is going to have serious repercussions on the whole world." And this pessimistic view was sustained by the Swedish economist's observation that there was no inclination in America to develop the postwar government planning and control which would be necessary to meet the catastrophe¹²

These observations were confirmed by events in the United States during the short period between the fall of Germany and the defeat of Japan, when the difficulties of partial reconversion already indicated the lack of a planned policy to cope with the danger of the coming crisis. Much reliance was placed upon the imagined role of accumulated savings, proposed expansion of social-security payments and relief to the war-torn areas to cushion the turn-over to peace production. But the effect of these factors was largely cancelled out by the large cut-backs in war orders which took place immediately after Germany's defeat, the abrupt halt to all war production after Japan's fall, the resumption of the normal working week, and relaxation of many economic control measures. This was immediately felt in a sharp reduction of the workers' take-home pay and the begin-

ning of mass unemployment, according to some estimates, likely to reach 10,000,000 within a year after the end of the war. While the resumption of peace-time production would restore the situation somewhat, the reconversion anarchy would shorten the postwar boom and hasten the cyclical crisis.

Despite these unmistakable symptoms, widely divergent sectors of American opinion, centering for the most part in Administration circles, were insistent that the crisis could be averted by expansion abroad. While President Roosevelt, Henry Wallace and other government leaders, as well as many trade union leaders, also emphasized the need for public measures to cope with a postwar crisis, even they looked to increased American exports, three or four times beyond the prewar level, to save the country from a prolonged crisis after the first postwar boom.*

The general tenor of these programs reflected the basic tendency of American capitalism to expand on a world scale. It was conceded that even the rich American market would not sustain the imposing structure of industry, and that extraordinary measures would be necessary to avert mass suffering. But for the most part these measures were sought in connection with expanding the share of the United States in the world market. The general disposition to overlook or underestimate the dangers arising from the instability of the economy was at least in part due to the mesmerizing influence of the wartime upswing and to preoccupation with the problems arising from the activation of the United States as a world power.

The world market is a very uncertain quantity, particularly since the United States is so large a part of it. Among the main factors determining world market possibilities is the internal economic condition of the United States, and the foreign policies developed by the United States. If the latter tended to sharpen rather than lessen the world political crisis there could be no

* A temporary boom was to be expected following the end of the war, due to wartime shortages of consumers' goods and the accumulated purchasing power which could not be expended during the war period. The level and duration of the boom were adversely affected by the beginning of mass unemployment, especially in the producers' goods industries, continued rise in prices, resistance of the trusts to the workers' wage demands, high taxes on the lower income groups, and the intense world political crisis. Estimates as to the length of the boom ranged from two to five years.

long-range perspective for the kind of democratic stabilization which alone could assure an expanding world market. Opposition to democratic changes in Europe, the recrudescence of anti-Soviet tendencies, aid to the suppressors of the colonial liberation movement, the aggressive expansionism of imperialist forces in America, and failure to take significant measures against the coming economic crisis were among the principal factors preventing the expansion of the world market.

The sharpening of the political crisis, even if it were to proceed for some time within the framework of a Big Three understanding to maintain the peace, could have no other effect than to restrict markets everywhere and hasten the approach of the economic crisis. Failing appropriate measures taken in advance, an economic crisis of great intensity, gathering in the midst of a deepening world political crisis, would overwhelm the United States.

This could be seen clearly in the wartime expansion which accentuated the very factors responsible for the extraordinary instability of the American economy. These related factors, for which the American economy is especially noted, are the magnitude of production, the high degree of concentration of economic power, and the advanced technology and high productivity of labor.

Before the wartime upswing, the permanent or long-range effects of these primary factors were stressed in American economic literature, especially in the studies of the Temporary National Economic Committee (TNEC), set up by Congress in 1938, on the request of President Roosevelt, to investigate monopoly. One of these studies, on the effects of monopoly upon capital investments and national income, found that "concentration of income and wealth is the most important single factor leading to a volume of capital expenditures inadequate for the maintenance and expansion of the national income." Placed more simply, this recognizes the fact that the high concentration of profits retards the expansion and development of the economy. This is proved by a detailed examination of the profits, savings and investments of the American corporate system, leading to the conclusion: "Thus, it appears that so long

as a high degree of concentration of income and wealth exists, a full use of resources may not be attained let alone maintained for any long period." Still another significant conclusion was that "under the existing pattern of income and wealth distribution, the national income must rise at a fairly rapid rate or decline. *There are no intermediate positions*"¹¹ Another government study came to some equally "revolutionary" conclusions with respect to the effects of technology upon the American economy. Its central thesis is that technological advance, resulting on the one hand in increasing labor productivity and on the other in stimulating further concentration, has led in the present society to a "long-term imbalance" and to "fundamental dislocations" of the economy. It rejects the theory that capitalism could and would restore its essential equilibrium. After a detailed examination of major studies on the subject, the monograph concludes that the state of unbalance leading to large-scale permanent unemployment may be expected to continue. Furthermore, no relief is seen from the basic tendency towards greater technological unemployment. The matter is left suspended in air, with the following extremely provocative conclusion:

From where else can the stimulus be expected to come? From war? If the preparation for and the conduct of war constitute the only adequate compensatory force to the labor-displacing effects of technology, the proposition would then be established that only through war can the present economic system be operated in such a way as to approximate full employment.

Today a state of unbalance exists, and it seems likely that under present conditions unbalance will continue and perhaps become even more pronounced.¹⁴

Technological unemployment is a basic attribute of highly developed capitalism, especially in a monopoly-capitalist structure of high concentration and efficiency as in the United States. It is certain to reassert itself with renewed force in the peacetime economy, even during a period of relatively high production.

levels, as happened in the prosperity years of the twenties. But this time the effect will be even more serious, because of the large wartime increases in labor productivity and industrial efficiency. According to estimates of the Department of Commerce, if in 1946 the country returns to the 1940 level of production, the army of unemployed would stand not at nine million, as in 1940, but at 19 million.¹⁵

Monopoly and technology thus play an important role in preparing the conditions for a crisis of overproduction, in deepening it when it comes and in retarding recovery. These factors, greatly accentuated during the war and the postwar boom, are leading directly to great overproduction especially of industrial products and particularly of the products of heavy industry. That is the main danger foreshadowed by the wartime expansion, and by the absence of economic and political factors which can compensate for the loss of the wartime market.

The character of the wartime expansion was such as to prepare a drastic decline in production as soon as the war emergency ended. The sharpest increases in output took place in industries that played a relatively small role in peacetime economy, like aircraft, shipbuilding, explosives and light metals. In these industries, production multiplied from 20 to 35 times between the second half of 1940 and the second half of 1944. These comparatively new wartime industries, which can play only a minor role in the peacetime economy, employed about 21 per cent of the total industrial labor force.

About 40 per cent of industrial labor was employed during wartime in the basic peacetime industries which had converted fully to war production. Here, too, the rate of expansion was great. The machinery industry increased its output more than 300 per cent. In this group also are the steel, nonferrous metals, rubber, chemical, rayon and automobile industries, which expanded their production by between 100 and 200 per cent.

Together, the war-expanded industries thus employed more than 60 per cent of the wartime industrial labour force, as compared with 30 per cent employed in the same industries five years earlier. Out of the increase of 6.4 million workers in industrial employment between 1939 and 1944, 5.8 million, or

90 per cent, were accounted for by the expansion of the metals and chemical industries ¹⁴

As will be shown later, the greatest concentration of production and the highest degree of monopoly occur precisely in those industries which underwent the greatest wartime expansion. In the absence of any reasonable prospects of peacetime markets large enough to absorb an output equivalent to the wartime level, these trustified industries can be expected to cut capacity to the bone, without any regard for the welfare of the labor force. Nothing short of drastic government measures to force full employment upon the monopolized industries—and the prospect for this was dim indeed—could prevent a disastrous crisis.

The American industrial giant thus stands on very uneasy ground. Having come to a position of a dominant world power, the United States finds that its main weapon, its great economic supremacy, is unsteady and uncertain. Peace brings the prospect of an economic disaster, and in its train new political dangers.

The giant monopolies are impelled to anticipate the crisis by taking the very measures which will hasten it, such as restricting capacity sharply and intensifying their struggle for world markets. Nor can they be expected to overlook the benefits of maintaining a large military establishment to absorb some of the slack in the economy and to back their expansionist program. No small part of the recovery from the last economic crisis was played by war preparations, particularly among the aggressor powers. The developing situation in the American economy immediately following the end of the war thus increased the danger of reaction and aggressive expansionism, especially in view of the tremendous economic and military power developed during the war.

V. Monopoly in the U. S.

THE UNITED STATES is the classic country of the trusts. In no other capitalist country are the corporations so big, and nowhere are there so many big corporations. France is known as the land of the "200 families." The United States has an even greater right to be known as the country of the 200 corporations. For 200 of the top industrial monopolies in the country, many of them interrelated, together commanded assets in the astronomical neighbourhood of about \$100 billion by the time the war was over.

The measure of monopoly in a country is to be found not only in the bigness of its corporations, but even more in the degree of control by the monopolies over the economy as a whole. In this respect also, the United States ranks as among the most thoroughly monopolized countries in the world. The land of "free enterprise" is a land of giant trusts controlling every important branch of finance, industry and trade.

Monopoly America faced the war-devastated world as a great exponent of the freedoms. Freedom for whom and freedom for what? An examination of the anatomy of the American corporate giant will help supply the answer.

1 PREWAR GROWTH OF MONOPOLY

As throughout the capitalist world, the concentration of economic power in the United States during the interwar years proceeded at an accelerated pace. This is shown in great detail by the voluminous studies and investigations of the Temporary National Economic Committee.¹ This data is still to be ade-

quately analyzed. For our purpose it will be sufficient to review only some of the most significant material

Our first inquiry is directed to the concentration of production, which is the best general indicator of monopoly. Concentration of manufacturing operations in giant enterprises is the base of the monopoly structure. Material on this subject is presented in the TNEC monograph, *The Structure of Industry*.² It does not attempt to show the centralization of control over many plants and branches of industry, resulting from collusion among several companies and arising from interlocking financial arrangements. The study is devoted principally to the concentration of production in the physical sense, within single and grouped manufacturing establishments. Since it is based primarily upon Census data, and therefore includes only acknowledged concentration, the results are admittedly an understatement of the actual concentration. As TNEC points out, "there is at least this much concentration."

The first thing to note is a sharp trend towards very big operations in manufacturing. Between 1914 and 1937, the average number of wage-workers per establishment (with products valued at over \$5,000 annually) grew from 37 to 51. But the larger establishments accounted for most of the workers. Only two per cent of the workers in industry in 1937 were employed in plants with less than six workers, and such plants represented 41 per cent of all establishments. At the very top were 978 establishments (0.6 per cent of all establishments), each employing more than 1,000 workers, and these accounted for 26 per cent of all workers in industry. Of these, 241 establishments employed more than 2,500 workers each and accounted for 14 per cent of all workers.

The concentration of production in the very large establishments led to the closing down of many very small manufacturing units. Establishments employing less than six workers decreased by eight per cent and those employing 6 to 20 workers by 13 per cent between 1914 and 1937. The main decline in the number of small enterprises took place after 1929, that is, as a result of the crisis. The TNEC survey states: "The outstanding points in this record are the increase in the number

of large plants, during both the war period and recent years, and the marked reduction in the number of small establishments since 1929."³

In the basic industries concentration was especially marked. In iron and steel, 53 plants with over 2,500 workers accounted for 58 per cent of all the workers in the industry, and establishments employing from 1,000 to 2,500 accounted for another 23 per cent, as compared with 53 per cent for both groups combined in 1914. In the automobile industry, 19 establishments employing more than 2,500 workers accounted for 70 per cent of all the workers in the industry in 1937, as compared with 64 per cent of the workers employed in 14 plants with over 1,000 employees in 1914. In the manufacture of rubber tires and inner tubes the proportion of workers employed in plants of 1,000 and more increased from 60 per cent in 1921 to 84 per cent in 1937. The agricultural implements and engines, turbines and waterwheels enterprises employing more than 1,000 workers accounted for 28 per cent of the workers in the industry in 1914 and for 66 per cent in 1937. In the aircraft industry, 59 per cent of the workers were in establishments employing more than 1,000 workers in 1937, as compared with 24 per cent in 1929.

Side by side with this increase of very large units, there took place a further integration of manufacturing operations among groups of enterprises. The Census gives data on central office groups, by which is meant the control or operation of two or more plants by a single ownership interest. Again the figures reveal only acknowledged integration of operations, and do not include cross-direction among a number of central-office groups. But even this minimum is quite illuminating. In 1937, 5,625 central-office groups controlled 25,699 manufacturing establishments, or 15 per cent of the total. They employed 51 per cent of the total number of workers and represented 61 per cent of the total value of products in manufacturing. The average was five establishments per central office, but actually there is a much wider range of control, one central office alone controlling 497 establishments. While these central-office groups include

many very large manufacturing units, they also include smaller enterprises, under centralized operational control

From the viewpoint of monopoly control over the domestic and foreign commerce of the United States, the most revealing data are supplied by still another calculation in the same survey. The production of almost 2,000 separate products is analyzed to determine what proportion of these products is controlled by the leading four producers. The result is a reliable index to the general situation, and reveals more than any other available estimate the high degree of monopoly control in the country.

For one-half of the products studied, the leading four producers accounted for over 75 per cent of the total output of each product.¹ Such control includes both consumer and capital goods. Four leading companies controlled over half the production of 58 per cent of all products in the food group, 62 per cent of all items in the forest, paper and petroleum group, and 95 per cent of the total number of products in the rubber and machinery groups. Many products were controlled almost 100 per cent. In the machinery, rubber, and chemical industries, from 36 per cent to 40 per cent of the items were so highly concentrated that the four leading companies controlled over 90 per cent of the output.

These figures show that in each branch of industry four (or less) of the leading producers control directly through the manufacturing process at least half of the total production. And among each group of the four leading producers, a very large share of the production is controlled by the very largest.*

Thus far the statistics relate mainly to the size of manufacturing units and the concentration of production. But together

*This is shown by the following examples. Two firms between them produce over 62 per cent of the country's farm implements. General Motors, Ford and Chrysler together accounted for over 90 per cent of production in the automobile industry. In the iron and steel industry, the United States Steel Corp. alone possessed over 43 per cent of the blast furnace capacity and almost 36 per cent of the rolling mill capacity in 1938. The Aluminum Co. of America had a complete monopoly of the industry. The weight of the very largest companies in the industrial economy is also indicated by the following. Fifty of the largest manufacturing companies, operating 2,869 separate establishments, employed 16 per cent of all workers in manufacturing and accounted for 28 per cent of the value of all manufactured products in 1937. Operations of these companies in non-manufacturing fields are not included in these figures.

with the growing domination within industry of the very large establishments, extensive mergers and amalgamations took place, without necessarily disturbing the independence of the various enterprises as manufacturing units. In the twenty years between 1919 and 1939, a total of 9,518 companies disappeared as a result of recorded mergers and acquisitions in the fields of manufacturing and mining alone. The merger movement extended into other fields as well. For example, in 1926 alone 1,029 public utility enterprises were absorbed. By 1930, about one-half of the industry was in the hands of three controlling groups, while another ten groups controlled about 30 per cent of the industry.

The TNEC survey finds that 1925-1929 was a period of "feverish amalgamations", like the period of 1897-1903 when so many of the powerful American trusts were formed. In both periods, says the government specialist, "the enthusiasm for bigger business was closely related to the activities of financial promoters and the willingness of the investment markets to absorb new securities." From this it is correctly concluded, "The control therefore lies in considerable degree in control over the money markets. The basic problem shifts from the field of business structure and corporate entities to the financial world."⁴ This conclusion coincides with Lenin's, made in 1916, that in the imperialist period finance capital is the dominant force in the economy, as shown by the new and powerful position of the banks and financial institutions in all the leading countries.

Accordingly, too sharp a line cannot be drawn between ownership of the industrial plant of the country and financial control in general. The control of the giant production enterprises is centralized in the large industrial corporations, which in turn are interlocked among themselves through ownership control by the major finance-capitalist groups, like the Morgan or Rockefeller interests.⁵ The imposing concentration of production in the very large enterprises of American industry, which in itself already establishes a high level of monopoly control, is in turn subject to even higher and more centralized controls.

An effort to define the extent of centralized control in industry is made by another TNEC study, devoted to an investigation

of ownership of the 200 largest industrial corporations.⁶ At the end of 1937, they had assets of nearly \$70 billion, or about 45 per cent of the assets of all non-financial corporations and 25 per cent of the assets of all corporations.

The sum total of the findings can be briefly stated: roughly the top one per cent of all the shareholders in the country hold about 60 per cent of the common shares of the 200 leading industrial corporations. This figure provides only a clue to the actual concentration of control, since with a relatively small portion of stock ownership it is possible to control vast combinations. For example, three family groups—the du Ponts, the Rockefellers and the Mellons—together have shareholdings of nearly \$1.4 billion directly or indirectly giving them control over 15 of the largest corporations with aggregate assets of over \$8 billion. In other words, ownership of less than 18 per cent of the stock proved sufficient to obtain control over a network of corporations.

Cross-directorships, holding companies, family group controls and other devices are used to win and maintain the dominant positions for the finance-capitalist groupings within the corporate system as a whole. Basically, the high concentration of production and centralization of control determine the role of the giant trusts in the economy. But the direct controls established by big business extend beyond the monopolized sector into the so-called free sector of the economy.

Since World War I, and especially since the crisis of the early thirties, the trade associations provided the main channels through which the independent enterprises and the "outsiders" could be brought into line by the big monopolies. In connection with the government controls of the first world war, the trade associations developed rapidly, and in subsequent years extended into all branches of economic life, on a local, state and national scale. They found a common program in the "open shop" campaign against the unions, the formation of company unions under the "American plan", and in the maintenance of "self-government in industry", by which is meant the self-regulation of each branch of industry and business without government interference.⁷

The "open shop" and the "American plan" were temporarily shoved into the background with the spectacular growth of the unions following the crisis, a development which commanded government protection under famous section 7a of the National Recovery Act. But at the same time the dominating position of the giant corporations within the trade associations was strengthened during the brief period of government-sponsored cartelization under the NRA Codes. "The key factor in the NRA program," reported the Department of Commerce, was the 3,500 larger and over 10,000 local associations and Chambers of Commerce.

The cartel features of the NRA Codes have been widely noted. During its existence the National Recovery Administration approved 874 Codes regulating industry and business. The administration of the Codes was entirely in the hands of the trade associations, and more specifically under the control of the dominant producers in each field. All Codes regulated terms and conditions of sale. Most of them contained provisions for the direct and indirect control of prices. Many Codes led to the allocating of markets among the firms in a specified field. Still others restricted output and distributed the available business among the various companies. The Codes in effect accelerated the process which had become marked during the crisis, of subordinating the smaller enterprises to the "leaders" in their branch of industry or commerce.⁸

By the time the Supreme Court abrogated the Codes they had already left a permanent cartel-like imprint on the trade associations. Many of the provisions imposed through government regulation continued to operate in one form or another under the direct "self-government" of the big corporations over the trade associations. The whole structure became more closely knit and more effectively ruled by the "leaders." At the peak of the whole association structure in industry stands the National Association of Manufacturers. Until fissures on matters of policy appeared temporarily in the ranks of big business during the war, the NAM could undoubtedly muster sufficient evidence to support its claim that it was "the only organization exclusively representing the interests of American industry," that is, of the

monopoly leaders in American industry.⁹ The inner group of the NAM, actually setting its tone and policies, is the Special Conference Committee which is composed of the representatives of the biggest monopolies *

An offshoot of NAM and controlled by it, the National Industrial Council gathered under its wing the most important employers' and trade associations. In 1940, its membership included 35 state industrial associations, modelled after NAM, 107 employers' associations dealing with industrial-labor relations, and 92 national manufacturers' associations, including the dominant ones in heavy and light industry. "Under one or another form of representation," says Robert A. Brady in his study of the trade associations, "it seems probable that the NIC includes in its membership close to 80 per cent of all manufacturing activity in the United States. The other 20 per cent, with rare exceptions, is made up of small-scale and relatively unimportant concerns."¹⁰ Another product of NAM is the National Industrial Conference Board, organized during World War I, which is an elaborate research and propaganda institute for big business. Among its affiliated and co-operating organizations are the Air Corps, and the Military Intelligence and Ordnance divisions of the Army and Navy.

2 MONOPOLY IN THE WAR ECONOMY

During the war the monopolies not only increased their control of the country's industrial capacity, including the new government-financed plant, but piled up tremendous profits and reserves. Whatever passing benefits were received by the medium and small enterprises were nothing compared to the gains of the monopoly giants.

Basic production needed for war was already well concen-

* Organized in 1919, and meeting monthly since that time, the Special Conference Committee included from the beginning Bethlehem Steel Co., E. I. du Pont de Nemours & Co., General Electric Co., General Motors Corp., Goodyear Tire & Rubber, International Harvester Co., Irving Trust Co., Standard Oil Co. of New Jersey, U. S. Rubber Co., and Westinghouse Mfg. Co. The American Telephone & Telegraph Co. was added in 1925, and the U. S. Steel Corp. in 1934.

trated among the leading trusts. New war industries—like aircraft, explosives, light metals, synthetic rubber—were taken over by the automobile, chemical, oil and other existing monopolies. An occasional war baby, like the Henry Kaiser combine, was able here and there to elbow out some of the established interests, particularly in temporary war-boom industries like shipbuilding and airplanes. But the citadel of big business remained well fortified against invasion from newcomers and disrupters.

By far the overwhelming share of the government war contracts went to the biggest monopolies. Between June 1940 and March 1943, seventy per cent of all contracts were given to 100 companies, many of them interlocked. During the same period, government supplied 78 per cent of the \$20 billion invested in over 17,000 plants. General Motors, for example, received 8.5 billion in war orders and at least 100 new plants and extensions of old ones. New plant facilities of du Pont, a heavy stockholder in General Motors, amounted to over one billion dollars, in which du Pont invested only five per cent.¹¹ The steel trusts also received about one billion dollars in new plant and equipment.

During the period of initial conversion to war production, from June 1940 to March 1941, the very biggest corporations got the gravy. During these ten months war orders amounted to \$13 billion, which is more than all the value added by manufacture for the entire industrial plant of the United States during the year 1939. Of all contracts, 45 per cent were awarded to six closely linked corporate groups, and 62 companies of several interrelated combines received 80 per cent of the total.¹² Later, war contracts were only little better distributed, as the bigger producers resisted further expansion of capacity and as the government took measures to draw the smaller concerns into war production. But the essential ratio was not altered.

At every turn, the great monopolies guarded their interests zealously. Senator O'Mahoney, who had headed the government investigation of monopoly before the war, told a Senate committee:

Whether it be in the production of aluminum or rubber or steel or oil, many of the giant corporations which participate in holding the bulk of the war contracts have done everything in their power to prevent the establishment of enterprise that might possibly compete with them after the war is over ¹³

This was especially the case with respect to new plant built with government funds. About \$15 billion of federal funds were invested in the new plants. Even the \$10 billion invested by the corporations in new capacity could hardly be considered a private holding, since this sum was charged to current operating costs, to be repaid by the government within five years. Total new plant costs equalled roughly one-half of the estimated replacement value of all manufacturing plant and equipment in place in 1939. The direct government investment alone was equivalent to almost one-third of that figure. By the time the war ended government-owned plant amounted to at least 15 per cent, probably closer to 20 per cent, of the effective industrial capacity on hand. Half of the government plant was operated by 31 corporations, and 150 corporations operated 77 per cent ¹⁴

Through their management of the government plant, the corporations were in a position to determine the final disposal of the new capacity and to safeguard their monopoly. Despite the widespread public condemnation of the aluminum trust, for example, Alcoa was permitted to protect its position fully and to insure its postwar monopoly. The production of primary aluminum rose sixfold during the war. Half of it was in the Alcoa-owned plants, and most of the remainder in new plants built by government funds and managed by Alcoa. The government Defense Plant Corp. invested \$800 million in new aluminum plants, of this new output 96 per cent was in the hands of Alcoa as manager. And this increased production came about only after the shortage of aluminum ~~disrupted~~ ^{Disrupted by} disrupt the whole air program, due to the refusal of Alcoa to increase capacity for fear of postwar surpluses.

New source materials and new methods, which ~~could have~~ ^{could have}

increased production in non-Alcoa hands, were consistently rejected Alcoa's sister in Canada, Alcan, also received very profitable contracts from Jesse Jones, then Secretary of Commerce and head of the Metals Reserve Corp. New plants were so located as to make their postwar operation unprofitable or to assure their disposal automatically to Alcoa. Thus the aluminum trust succeeded in retaining its complete monopoly during the war.¹⁵

The synthetic rubber industry was developed entirely under government auspices. By 1944 it had a capacity of 865,000 long tons per year, substantially exceeding United States rubber requirements and almost equal to world production of crude rubber in recent peacetime years. This key and highly specialized new industry was financed by the government. Not a cent of private funds was invested in its two leading products, Buna-S and Butyl. About \$600 million of government plant is involved, owned by the Defense Plant Corp. It is operated on a management fee by the leading corporations interested either in the source material or the final product—by the oil refining, chemical and tire manufacturing companies. While the processes have been made available to all companies involved in the new synthetic rubber industry, these patents were transferred to the government on the condition that they be made available after the war only to those companies which co-operated in the synthetic pool.

The dominant corporations interested in rubber are in a position to determine the final disposal of the industry. This is a powerful weapon for the American trusts to bludgeon their way into the older Empire markets and fields of investment. Before the war practically all natural rubber came from the Far East, mostly from the Dutch East Indies and Malaya. The United States consumed well over 50 per cent, sometimes as high as 60 per cent, of world consumption of crude rubber. Production was controlled by the rubber cartel set up by the governments of Britain, Holland, France and Siam. By their control of the synthetic industry in the United States, the American trust magnates now hope to break this monopoly in crude rubber and take over a share of the industry. Whether

fully utilized or partly permitted to stand by, the industry serves as a club with which to obtain new advantages in South-east Asia and in the world cartel structure as a whole ¹⁴

Through management of government war plants and their own research laboratories expanded with state funds, the big corporations commanded many technical and scientific discoveries made in connection with the spurring of munitions production. Besides synthetic rubber, other important new materials, including plastics and synthetics were developed for practical application in industry. Government-sponsored industrial research led to many significant innovations in methods and processes of production and in the perfecting of new manufactured products. Private monopoly could use or store away for future use the knowledge or "know-how" of wartime achievements in such significant fields as electronics, communications, and jet-propulsion. By far the most significant scientific discovery of the war was in the field of atomic energy, the immense constructive as well as destructive possibilities of which challenge the imagination as no other recent discovery. Here, too, the big corporations were in on the ground floor.

In the official report on the atom bomb, *Atomic Energy for Military Purposes*, Henry D. Smyth mentions over a score of important corporations involved directly in one or another aspect of research and work on the atom bomb. The du Pont chemical trust was most closely identified with the project. Since the end of 1942 du Pont shared with the Metallurgical Laboratory of the University of Chicago the principal responsibility for producing plutonium, the fissionable material used in making the bomb. On the recommendation of General L. R. Groves, in charge of the project for the Army, du Pont was selected to construct all facilities for the production of this material. It designed and constructed the small-scale plant at Oak Ridge, Tennessee, and built and *operated* the big plutonium plant at Hanford, Washington. Du Pont scientists and engineers became members of the research and engineering staffs. Many key technical people employed by the trust were "loaned" to the Metallurgical Laboratory, where research on plutonium was concentrated. According to the official report,

all significant research data on plutonium was reported to the corporation, and the laboratories engaged in this aspect of the work were instructed to furnish du Pont with whatever information was requested. In addition to plutonium research and production, du Pont men were involved in producing the pure uranium metal from the oxide, in the development of catalysts and new coolants and lubricants needed for the chain-reacting pile where fission of the atom is induced and controlled.

Other corporations shared in important aspects of the work. A representative of Monsanto Chemical Co., for example, served as chairman of a committee on the chemistry and metallurgy of plutonium. This committee correlated the work of the University of Chicago laboratory with the work at Los Alamos, N. M., where the atom bomb itself was manufactured. Westinghouse was engaged in the work of purifying uranium oxide and producing the pure metal, supplying more than 6,000 pounds of uranium by the end of 1942. It was also involved in the high-speed centrifugal separation of the isotopes of uranium, and together with General Electric supplied electrical equipment and control for various branches of the undertaking. Another big corporation connected with the project was Standard Oil, whose Development Co. laboratories in early 1942 took over experiments on the separation of uranium by the centrifugal process. Standard Oil scientists also supervised the construction of the heavy-water plant in Canada. Union Carbide and Carbon Corp. operated the gas diffusion plant, and participated in other branches of the atom project.

The scientific as well as technical knowledge which has been kept from our greatest wartime ally was thus made available to corporations that before the war maintained the closest cartel ties with the German trusts. Many cartel agreements, as noted in an earlier chapter, specify that arrangements for the exchange of information were to be resumed after the war.

Although the contracts with du Pont and other corporations specify that patents developed on the project belong to the government, these monopolies have acquired the "know-how" at no expense to themselves during the early and most costly

phase of experimentation and production. Nothing prevents them under present conditions from utilizing this knowledge to develop their own processes in the field of atomic energy. As concerns peacetime use, they are in control of a whole new branch of technology with immense possibilities in power, heating, industry, transport, medicine and science. For all practical purposes, they are in a position to determine how fission and its products are to be used in these fields, if at all, or to store the secrets away to protect their investments in the established industries.

As is to be expected, the process of concentration was greatly accelerated during the war. This is shown most clearly by the increase in the number of workers employed in the very large plants. In 1943 plants with more than 1,000 workers accounted for 45 per cent of all workers in manufacturing, mining and construction as compared to 30 per cent in 1939.¹⁷ Many of these large plants are under single ownership or control. These data, perhaps more dramatically than other statistics, reveal how the power of monopoly has grown during the war, and show its dominant influence over the whole economy and over employment.

Furthermore, the war expansion remained well confined to the old industrial areas of the northeastern and north central states. Whatever enthusiasm was aroused by the appearance of an occasional new plant in an hitherto unindustrialized region clamoring for new life and activity proved premature. Most new plants appearing in the South or West, remote from the usual industrial and transportation centers, were scheduled for the scrap pile as soon as the war ended. The War Production Board reports that the center of manufacturing remained where it was before the war, and that the degree of concentration of production in a small number of metropolitan areas has been very little reduced. As much as 93 per cent of the new industrial capacity was located in 179 previously existing manufacturing areas which in 1939 had 84 per cent of the nation's industrial workers.¹⁸

When one considers the stupendous wartime profits of the big corporations and the swollen reserves accumulated by them

during the war, their postwar campaigning for high prices, low wages and tax relief can be characterized only as brazen looting of the nation. Despite the increased tax payments on wartime profits, net profits of industrial corporations, after taxes, increased from \$3 billion in 1939 to \$6.4 billion in 1944. The profits earned during the five war-production years totalled over \$27 billion. During these years the margin of profit increased from 6.3 per cent to a high of 11.6 per cent. Working capital of the industrial corporations more than doubled, making available a tremendous reserve for reconversion. In addition to \$31 billion in cash and government securities on hand at the end of 1944, the corporations had accumulated credits with the Treasury of about \$25 billion in the form of excess-profits taxes which could be called upon in case postwar profits fell below the 1939 average¹⁹. By the end of 1945, according to the Federal Reserve Board, liquid capital of the industrial corporations reached \$47 billion.

This vast accumulation of capital by the industrial corporations is supplemented by an equally vast concentration of capital in the banks and insurance companies, also available for industrial and commercial financing. At the end of 1944, the 20 largest commercial banks held deposits totalling \$39 billion, or 28 per cent of the funds on deposit in the nation's 14,500 banks²⁰.

Concentration of war orders in the very big corporations, as well as material and labor shortages and conscription, had the effect of accentuating the tendency for the smaller enterprises to disappear. In January 1945, the Senate Small Business Committee reported that nearly 500,000 firms, or one-sixth of all business establishments in the country, had closed down since 1940. The mortality was heaviest in the commercial lines, but many of the smaller industrial establishments were affected. Because of the giant scale on which American production operates, establishments employing less than 500 workers are considered among the "smaller" industrial concerns. These numbered about 165,000. During 1943, only 13 per cent of Army war orders, 8 per cent of Navy contracts and 11 per cent of Maritime Commission orders went to concerns employing

less than 500 workers²¹ On such skimpy fare, many of the smaller concerns, especially the smallest among them, could not survive

A special study by a number of government departments of the smallest manufacturing firms (employing up to 125 workers) reveals that the sum total of their physical output remained at about the 1941 level, but that the output of the smallest plants declined during the war period. The samples studied are representative of the situation of some 62,000 concerns in practically all branches of industry. Plants employing up to seven workers produced by volume in January 1943 roughly about 35 per cent less than in January 1941. The situation was a little better for concerns employing 8-20 workers, for which the decline in volume of production was about 18 per cent. Plants employing from 21 to 125 workers, as a group were able to increase both the value and volume of their production, but at a rate far below that reached by manufacturing as a whole.

It is apparent that the smaller firms—and the smaller they are the more true it is—were relatively little benefited by the wartime expansion. About 58 per cent of the whole group investigated reported some war production, and only 44 per cent reported that war output represented more than half of their production. What this means in terms of the life expectancy of the smallest industrial enterprises is indicated by the fact that 32 per cent of the establishments reported either that they did not expect their business to be as good in 1943 as in 1942, or that they would have to close entirely.²²

Nor does small business have the necessary capital for re-conversion, with a speed and on a scale enabling it to withstand the pressure of the corporate giants.

3 SOME CONCLUSIONS

The basic tendency towards greater concentration of economic power in the hands of the monopolies, characteristic of all imperialist countries, proceeds apace in the United States. As

elsewhere the development was accelerated by World War I, and especially by the economic crisis of the thirties and by World War II

The main characteristic of the American economy, as compared with that of other major capitalist countries, is the magnitude of production. This is expressed especially in the tremendous power of the trusts and monopolies. The American corporate giants account for a very big portion not only of the total production of the United States but of the whole capitalist world. Quite apart from the degree to which the "free" or non-monopolized sector of the economy is brought under the domination of the monopolies, the output of the trustified industries and then actual or potential capacity provide a decisive portion of the output and capacity of world capitalist industry.

This condition gives rise to a number of important features characteristic of the domestic and world position of American monopoly.

The American trusts are able to compete against the biggest producers of any other single country, and in many cases even with the largest monopolies of a number of countries gathered in cartels. The weakening or control of German and Japanese monopoly capital, the economic decline of Britain and France, together with the further growth of monopoly in the United States during the war, greatly enhance the relative weight of the American trusts in the capitalist world economy.

The attempt to exploit this advantage, to take over the positions in the world economy of the monopolies of the defeated countries and to absorb or elbow out the combines of the war-weakened nations, is the motive power of an aggressive and expansionist foreign policy. A concrete aspect of this is the anti-cartel program of the government coinciding with the interest of the main monopoly groups in industry and finance. These no longer find acceptable the prewar division of markets and spheres of influence, and are driving for a new allocation on a world scale in which the American trusts will occupy the dominant positions.

The vast wartime accumulation of surplus capital by the

monopolies is in itself a powerful impetus for expansion outward. While the big capitalists will make every effort to maintain the extremely high wartime rate of profit, principally by maintaining pressure on wages but also by boosting prices, the field for profitable investment at home will remain limited and the rate of profit will fall. More profitable fields of investment will be sought abroad, especially in the economically backward countries where the rate of profit is higher. Such a movement took place after World War I, when American capital exports exceeded those of all other capital-exporting countries combined. The capital now at the disposal of the monopolies is much greater than during the period of outward expansion in the twenties, and moreover this capital is also much more highly concentrated. The pressure for economic expansion within the American sphere of influence and into all other spheres is correspondingly greater.

Various theories current during the war that this capital will be used to raise the American standard of living overlooked the simple truth that in a capitalist economy the law of profit governs the utilization of capital. As Lenin pointed out in his *Imperialism*, "as long as capitalism remains what it is, surplus capital will never be utilized for the purpose of raising the standard of living of the masses in a given country: for this would mean a decline in profits for the capitalists; it will be used for the purpose of increasing those profits by exporting capital abroad to the backward countries."²³

The free or non-trustified sector of the American economy continues to come more and more under the domination of the monopolies. This process undoubtedly has been greatly speeded by the war. But there is an important variation in the American development as compared, for example, with the British. Because of the vast production under the direct control of the trusts, the corporate giants are able to maintain domination of the economy without the aid of large-scale government intervention to force the smaller producers into cartels.

The independents are brought under control of the monopolies, in the main, with a minimum of government intervention, largely through mergers and through "self-government in

industry" by means of the trade associations. With the exception of agriculture and the brief NRA period, a product of the crisis, government economic controls even during World War II were not as complete or extensive as in other leading capitalist countries. While many of the wartime controls operated to the disadvantage of the smaller concerns, these controls were not directed towards the creation of government-sponsored cartels, as was the case in England.

Undoubtedly, the anti-trust laws played a certain role in restraining domestic cartels and in favoring the formation of single corporations commanding an output large enough to give them control of the market with a minimum of cartel controls. But this is not a prime factor.

The scale of American production, from the beginning making use of the newer techniques and requiring vast amounts of capital, was conducive to the formation of giant enterprises and highly centralized corporate control. The great integration of industry, incorporating the experiences of the older capitalist countries, developed early in American industrialization. Large-scale production in modern enterprises also favored greater efficiency and labor productivity, giving the American monopoly giants a competitive advantage in the domestic and world markets. Under these circumstances, government-sponsored cartelization of the economy did not become a pressing necessity for the trusts, except in the period of the crisis.

Especially in view of the new advantages gained during the wartime expansion, the monopoly giants were strong enough within the country and so favorably placed with respect to foreign monopolies that they eschewed any form of government intervention which would restrain or restrict their activities. The gigantic "free enterprises" wanted nothing to interfere with their freedom to operate at home and abroad. To assure this freedom became the principal objective of American foreign policy.

While the trusts dominate the economy, the small and medium enterprises still account for a large volume of production. In relation to the output directly controlled by the trusts,

the output of the non-trustified sector is small. But in comparison to similar enterprises in other countries, many of the so-called smaller establishments in the United States can be considered giants. Struggling against absorption or elimination by the big monopolies, constantly trying to extricate themselves from the controls exerted over them by the trusts, these independent producers constitute a source of the anti-trust movement in the United States. Pressure from this source also leaves its imprint upon government policy, as expressed in the anti-trust laws and in the anti-monopoly program of President Roosevelt.

This should not be confused with the cartel-busting of the government and of the trusts directed against foreign-dominated cartels. However, the middle-class anti-trust movement provides a certain base for the demagoguery which is characteristic of the American expansionist program. "Free enterprise" and all the other economic freedoms, in the name of which the American trusts seek to extend themselves throughout the world, have for a long time been dear to the independent producers fighting the domination of the trusts at home. Thus, in government policy a certain merging takes place between the traditional middle-class trust-busting and the "cartel-busting" of the trusts. This helps explain the democratic flavoring of the American expansionist program—which nonetheless remains essentially the program of the monopolies.

VI. Anglo-American Rivalry

WORLD WAR II has weakened the British and strengthened the United States positions in the world. The decline of Britain as a world power and the increasing role of the United States have been marked tendencies since the turn of the century. The war has quickened this significant shift in world power relations.

By the end of the war, the United States was no longer merely *potentially* the predominant capitalist world power. It was assuming that role *actively*, in the political as well as the economic sense, although this development was at times obscured by ineptness in the sphere of foreign policy. Whatever political considerations drew Britain and the United States together, the rivalry between them simultaneously tended to drive them apart.

The defeat of the Axis powers left only Britain and the United States as first-rate imperialist powers. Inter-imperialist rivalries have been simplified considerably in the sense of the reduction in the number of leading contenders, having been reduced in the main to the rivalry between Britain and the United States. But if the antagonisms have been simplified in that sense, they have also been intensified.

The United States seeks to take over the world positions commensurate with its power. Britain attempts to regain or defend positions previously won against the encroachments of the United States. Dependent empires and second-rate imperialist powers tend to group themselves as satellites around one or the other major power. And Britain herself is in danger of becoming a "junior partner" of the United States.

1 PREWAR DECLINE OF BRITAIN

The economic decline of Britain arose primarily from the growing stagnation of her industry as compared with the rapid development of the industrial newcomers, chiefly the United States and Germany. By 1900 the United States had already outstripped Britain in industrial production, although it was still a small lead. But by the time of World War I, the United States had forged far ahead. On the eve of the war the value of United States production was two and one half times as great as Britain's.* Even before the new expansion of industry in the United States during the first war, Britain was already being eased out of the American market the greatest in the world.

At the same time, the rise of Germany created a more immediate threat, because of the lower capacity of the German domestic market and especially because German manufacturers were specializing in supplying European and colonial markets as the Japanese also were beginning to do. However, despite the sharpened competition Britain was able to retain her supremacy in world trade and as the world's money-lender and investor. She also retained her leading position as a colonial and naval power.

In the years following World War I, Britain's industrial production remained stagnant while the productive machine of other powers notably the United States continued to expand. From 1913 to 1929, American production increased by 70 per cent, while Britain's *decreased by one per cent*.¹ Formerly the proud leader of the industrial revolution, Britain became technically backward as compared with the newer industrial countries.

The tendencies to parasitism and decay, noted by Lenin as among the characteristic features of capitalism in the stage of imperialism, became ever more pronounced. Larger and larger portions of capital investment flowed into the luxury industries,

*Steel production exceeded Britain's four-fold, pig iron three-fold, consumption of cotton by one and one-half times, coal output almost two-fold.

while investment in the basic industries declined drastically.² This same tendency continued to operate even during the period of the great economic crisis.* While the productive machine at home deteriorated, Britain's upper classes depended more and more upon their rentier income from abroad. At the end of the last century, income from foreign investments had already reached 100 million pounds, exceeding the income from foreign trade by five times. By 1929, rentier income from abroad more than tripled, reaching 375 million pounds, which exceeded the income from foreign trade by seven times.¹

As a result of the stagnation of industry at home, export trade declined. More dependent upon foreign markets than any other industrial country, Britain became less and less able to withstand competition on the world market. By 1939, the production of textiles, traditionally a leading item in British foreign trade, fell to one-fifth of the 1913 level, during a period when the world consumption of textiles rose about 35 per cent. In 1932, coal exports were about half and pig-iron exports less than one-fifth of the prewar level. Between 1924 and 1933, total exports declined by more than half.

At the same time, Britain came to depend upon her empire more and more for foreign trade. The portion of total exports going to the Empire rose from 37 per cent in 1913 to 44 per cent in 1931, but during the same period imports from the Empire increased only from 25 per cent to 28.7 per cent of total imports. Thus, while England was becoming more dependent upon her Empire to absorb her declining exports, the Empire trade was becoming more widely distributed and less dependent upon England.⁴ The greatest inroads were being made by the United States.[†]

* In the ten year period 1924-1933, only 27 million pounds went into the iron and steel, metal working, mechanical engineering and coal mining industries, as compared with 42 million pounds in the ten year period from 1904 to 1913. During the five years 1929-1933, the period of the crisis, only 6.4 million pounds were invested in basic industry, while 11.5 million pounds went into breweries and 8.2 million into theatres, hotels and similar services.

† The share of imports by the Empire coming from the United States increased from 22 per cent in 1913 to 26 per cent in 1929. By that year, the United States dominated the Canadian market, 68 per cent of Canada's imports coming from the United States and only 15 per cent from the United Kingdom. In South Africa,

Explaining the root of Britain's production difficulties during the second world war, R. Palme Dutt showed how England's former industrial supremacy had turned into a hindrance

The old nineteenth century pre-eminence laid the basis for a long unchallenged monopoly in the markets of the world, in shipping, commerce, international finance, and the export of capital, as well as in colonial expansion. When in the last quarter of the nineteenth century, younger rivals, especially American and German industry, began to overtake and outstrip British industry by more modern technique and organization, the still continuing strength of the British world position and the volume of world tribute flowing into this island from every quarter of the globe removed any driving compulsion to carry through a corresponding modernization of technique and organization of British industry. American and German industry shot forward, British industry fell relatively backward. British capitalism in the twentieth century became more and more a rentier capitalism, living on world tribute and the results of past accumulation rather than present productive efficiency. The basic industries and agriculture were neglected, the luxury trades, home consumption industries and unproductive services advanced. By 1937 this degeneration had reached such a pitch that *The* [London] *Economist* (Nov. 20, 1937) could describe "foreign investment" as "the nation's greatest single industry".⁵

As will be shown later, the extension of monopoly institutionalized the technical backwardness of British industry. A by-product of the growth of monopoly was the controlled restriction of output in a number of basic industries. In steel,

Britain's share fell from 57 to 41 per cent, while that of the United States rose from nine to 18 per cent. In Australia, the British share fell from 52 to 40 per cent, while the American share rose from 24 to 25 per cent. In India, where Japanese competition was strongly felt, Britain's share of the market fell from 65 to 40 per cent, while the United States increased her share from three to seven per cent.

the number of blast furnaces was reduced, with the result that while British production moved from 9.2 million tons in 1920 to 10.5 in 1938, German production during the same period rose from 7.8 million tons to 23.2 million. Between 1925 and 1937, as a result of reduced shipbuilding capacity, British shipping tonnage was reduced by 1,869,000 tons while the German was increased by 922,000 tons, and the British portion of world shipping fell from 41 per cent in 1914 to 26 per cent in 1937. In the textile industry, the government-sponsored amalgamation process resulted in the destruction of 14 million spindles between 1920 and 1935—more than the total number of spindles in the entire German textile industry. Dutt calls this destruction of the productive forces of the nation "the peacetime 'scorched-earth' policy of the British monopolists."⁴

During the interwar years, Britain lost one leading position after another to the United States. In this period, the United States became the first exporting nation in the world, the chief exporter of capital, and the center of the world money market. She also began to approach Britain in naval strength. However, due mainly to the Empire which had been enlarged still further as a result of World War I, Britain exported a much greater share of her manufactured products than the United States. And although American investment abroad had expanded greatly, impinging more and more upon Britain's traditional spheres including even Greece, Britain was able to maintain her foreign investments. These remained much larger than the investments of the United States in Asia, Africa and Australia, and even in Argentina and Brazil.

4 WARTIME DECLINE

The weakening of Britain's economic position, already apparent as a long-range and growing tendency on the eve of the war, was greatly accelerated during the course of the conflict. Despite a significant wartime rise in production, British industry and efficiency continued to lag far behind the American. Wartime commercial exports declined drastically. Foreign

capital investments built up over a long period had to be surrendered. Not so long ago the greatest creditor nation in the world, Britain became transformed into the world's greatest debtor nation. Valuable colonial possessions in the Far East were lost. Empire bonds were weakened, and Empire units established closer economic ties with the United States. Not all these losses are permanent. But the net result is unmistakable.

As compared with 1938, the volume of output increased roughly by 40 per cent during the war. In view of the long standing stagnation of industry, the wartime destruction at home and the sharp cut in imports (some 40 per cent), this is a significant achievement. Lend-Lease materials from the United States, aid from the Empire and the expansion of agriculture in England* compensated for the drop in imports. But the increase in production was due mostly to the great effort and sacrifice of the workers, and to the fuller utilization of available resources under wartime government planning. Reduced consumption by the English people was an important contribution to raising the production of war goods. Increased labor productivity, estimated at 15 per cent (output per man-hour) for all British industry, and double that in munitions, was still more important.

Thus the wartime upswing of the British economy can be ascribed mainly to the political forces operating during a war which enjoyed the full support of the trade unions and the people, and not in the main to technological improvements and expansion of industrial plant. An indication of the relative contributions to the expansion of wartime output can be obtained from analyzing the rise in the national income, which was doubled between 1938 and 1944. Slightly over 57 per cent of the national income was spent on war. The *London Economist* has estimated that this 57 per cent, roughly equivalent to the increase in the national income, was made available as follows: by increased effort, 25 per cent; by reduced consumption, 16.5 per cent, by reduced returns to domestic private capital, 7.75 per cent; by increased drafts on overseas

* Six million additional acres were placed in cultivation, and three million more were reclaimed during the war.

capital, 8.25 per cent.⁷ Thus, well over 80 per cent of the increased output for war may be said to have been contributed by the higher efficiency of labor and the reduced standards of the people.

It is noteworthy that while British production as a whole rose, production in a number of basic industries, such as steel, coal and shipbuilding, was below the prewar peak even as late as the third year of war. With an eye on postwar possibilities, the monopoly leaders in a number of key industries resisted all pressure to increase capacity for fear that it would prove excessive and unprofitable after the war. In August 1941, after Hitler's attack on the Soviet Union, it was announced that some sections of the steel industry could close down for the duration. The more profitable coal seams were saved for working after the war. And in industries directly producing munitions for war there was much evidence of idle capacity.⁸ Undoubtedly, the flow of Lend-Lease goods from the United States and Canada, and speculation upon the possibility of a long and indecisive German-Soviet conflict contributed to the feeling among British industrial monopolists that they could afford to use less than their full productive capacity.

Such increases in production as did take place were far from sufficient to keep pace with the doubling of wartime production in the United States. The rise in labor efficiency did not even begin to approach the tremendous improvement which would be required to catch up with American industrial efficiency.

It is estimated that the average American worker produces in an hour from one and one-half to two and one-half times as much wealth as the average British worker.⁹ During the war, a textile mission under Sir Frank Platt visited the United States, and after comparing the British and American industries reported that in spinning, British output per man-hour was 18 to 40 per cent less than American, and in weaving 56 to 67 per cent less. How far Britain lagged behind even in her premier industry is shown by the fact that there are over 600,000 automatic looms in the United States as compared with only 14,000 in Britain. The Platt report found that Britain is from

25 to 30 years behind the United States in the organization of its textile industry

The coal industry, which is basic to British economy and supplies a leading export item, also lagged far behind. According to the *New Statesman and Nation*, "the American miner produced, before the war, nearly four times as much coal per day as the British miner." And during the war, little was done to improve British coal mining.¹⁰ Walter Hill, the trade editor of *The [London] Economist*, writing in an American publication, put the matter quite frankly

The need for greater efficiency in the utilization of its resources has come to be regarded as Britain's central economic postwar problem. It is the prime condition of Britain's survival as a great industrial and commercial power.¹¹

The overwhelming preponderance of American industrial power was registered in the world trade advantage gained by the United States even during the war. By 1944, England's exports had declined more than 50 per cent by value and 70 per cent by volume since the start of the war. On the other hand, in addition to \$30 billion of Lend-Lease exports, United States commercial exports by mid-1944 began to exceed their pre-war level.* "We have not only become the principal arsenal of democracy," boasted a report of the Foreign Economic Administration, "but also the world's foremost exporter of commercial goods."¹²

The decline in exports, to be expected during war, would not have been so serious for Britain were it not for the loss of many of her old-established economic positions abroad. By mid-1945, according to a British White Paper, \$4.5 billion of overseas assets, representing about one-third of Britain's foreign

* In 1943 the value of exports of civilian-type commercial goods was \$2,235 million as compared with the 1936-1938 average to non-Axis controlled areas of \$1,900 million. But during the first six months of 1944, commercial exports from the United States had already reached an annual rate higher than the prewar average of exports to all areas, including those areas since cut off by the Axis, and the rate has been rising steadily.

investment, had to be expended to meet war needs. And the end was not yet in sight. If to this is added the destruction of British properties in occupied areas about half the British investment had been at least temporarily lost. The sale of foreign holdings involved the transfer of long-established and highly profitable investments, such as gold-mining shares in South Africa, railroad interests and tea plantations in India, and shares in United States and Canadian industries.*

Britain's economic position was seriously affected by these losses. In the first place, the flow of rentier income, before the war exceeding the profits from foreign trade many times, was cut at least in half. Secondly, the loss of these economic positions abroad placed Britain at a great disadvantage in the competitive struggle for markets, particularly in those areas of the Empire and in the traditional British sphere of economic penetration where she is challenged by the United States. And thirdly, the heavy loss of income from abroad—not only rentier but also the income from shipping and banking services connected with trade—confronted Britain with great difficulties in attempting to regain her prewar level of trade, for she has financed her great excess of imports over exports largely out of this income. With the drastic cut in foreign tribute, the technical backwardness of British industry which was now called on to supply a much greater volume of export to pay for the raw material imports needed by the "island," became an even more serious impediment.

How serious can also be seen from the fact that in addition to foreign property loss, England has also gone deeply into debt to her Empire. In exchange for the export or use of war materials, the Dominions, India and other units of the Empire were credited in the London banks with huge balances in pounds sterling. It is estimated that these balances, together with other loans, by the end of the war reached \$13.5 billion and continued to grow. This sum was almost equivalent to the

* In India, Burma and the Middle East \$14 billion of British holdings were sold, over \$1 billion in India alone, in Australia, New Zealand, South Africa and Fire, \$810 million, in Canada, \$903 million, in South America, \$383 million, and in the United States, not counting collateral for a Reconstruction Finance Corp loan, \$820 million, almost half of British investment in the country.

prewar net national income of England, and far in excess of the value of foreign investments still retained by British interests† These balances together with other type loans, represent claims against Britain, in addition to whatever other liabilities might eventuate from Lend-Lease¹³

Far from being in a position to regain her former trade advantages through the extension of foreign credits, Britain herself had to seek large credits from the United States. These conditions sharpened the competitive struggle. For Britain sought to increase her industrial exports precisely to those countries and dependencies where she was in debt and from which she must import industrial raw materials. And it is precisely here that she was challenged by American economic expansionism. Through the extension of large credits to Britain, the United States hoped to force its way into the old and now rather tenuous spheres of British influence.

Britain sought to recover her economic positions largely through a determined export drive, that is, by a drive for regaining and extending her positions in the world market. British political economists of practically all political persuasions supported this drive. During the war, Sir Stafford Cripps, Minister of Aircraft Production and a leader of the Labor Party, pointed out that sooner or later production in Britain would have to contribute to liquidating the enormous foreign debt, and this meant tripling the value of the export trade. "That means a carefully planned and prodigious effort in the export market in which all our skill, our adaptability and our responsiveness to consumer demands will be called upon," he wrote. "We must not just revert to our prewar industrial set up, for we know that it had proved itself quite incapable of producing a high degree of efficiency or of competing in the export market with the most up-to-date machinery and organization of our competitors."¹⁴

From the viewpoint of postwar markets Lend-Lease, most of which went to England and the Empire, held great advan-

†India alone held at least \$3 billion in sterling balances in London, Egypt about \$1 billion, Iran, \$500 million, and smaller but significant sums were due other British Empire units, as well as Argentina, Brazil, Uruguay, Portugal.

ages for the United States and unavoidable disadvantages for Britain. It became unnecessary during the war for Britain to push exports to pay for imports, and this resulted in discouraging wartime exports. On the other hand, the United States derived many advantages from Lend-Lease in connection with the expansion of its share of the postwar world market. Lend-Lease products provided very effective advertising at government expense through "free trials" in many markets which had been only slightly touched before the war, and introduced "new lines" in many old markets. In the Dominions and other parts of the British Empire, wartime industrialization was carried out largely with lend-lease materials and this was bound to have an effect in encouraging postwar purchases from the United States. "It will be interesting to see," says a study prepared by the U. S. Department of Commerce, "to what extent private trade can follow up this introduction given to American goods by Lend-Lease in British countries."¹⁵

In still another way, the lend-lease program provided the United States with a useful instrument in expanding its own position on the world market. Only very general provisions for repayment are made in the lend-lease agreements, which state in Article VII:

In the final determination of the benefits to be provided to the United States of America by the [country receiving lend-lease aid] in return for the aid furnished the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations.

Although the agreement eliminates repayment in money and goods, it does not dismiss repayment as such, in the form of "benefits to be provided to the United States." This placed the United States in the decisive position to determine the "economic relations" and the kind of measures for the "betterment of world-wide economic relations" it would consider sufficient repayment of Lend-Lease.

3 THE WEAKENING OF EMPIRE

Britain's economic weakening, together with the political changes occurring during the war or initiated by the war, loosened the bonds which connect England with the component parts of the Empire. This is not to say that a complete dissipation of the Empire was already in sight as the war came to an end. But the process of disintegration within the Empire, already well advanced during the inter-war years, had been accentuated.

In the Dominions, especially in Canada and Australia, the pace of industrialization was greatly accelerated during the war. Under normal conditions the industrial expansion of Canada during the war years might have taken at least two decades. She became the fourth largest producer of war supplies among the United Nations. But to think that Canada had become a powerful and independent power would be erroneous.

By the outbreak of the war, 18 per cent of all the capital invested in Canadian industrial and commercial companies was controlled in the United States. In manufacturing alone, the proportion was even greater, fully one-third of the industrial investment being owned by United States capitalists, while in mining and smelting the proportion reached 38 per cent. Investments from the American neighbor of Canada far overshadowed British interests. At the end of 1939 the total foreign investment was \$7 billion, of which the United States accounted for \$4.2 billion, while British capitalists held only \$2.5 billion. American companies controlled over 80 per cent of automobile production, and over half of the output of electrical apparatus, rubber goods and non-ferrous metals. Between forty and fifty per cent of the production of chemicals, machinery and non-metallic minerals was controlled in the United States.¹⁶ The relation was changed overwhelmingly in favor of the United States during the war, as British investors were forced to sell over one-third of their Canadian holdings while government and private investment in the enterprises engaged in war production greatly increased the American stake.

Wartime industrial expansion occurred mostly in the industries largely controlled by the United States corporations, such as aircraft, motor vehicles, communications equipment and aluminum. The qualitative changes which occurred in these industries were of importance to the Canadian economy. Before the war still largely functioning as assembly lines for parts manufactured in the United States, they now were geared to practically the complete manufacture of the finished product. On the other hand, industries largely under Canadian control also grew, such as steel production and a completely new domestic machine-tool industry, which was developed under government sponsorship and control.

A great wartime industrialization occurred also in Australia, largely with the use of American industrial equipment and technical aid.¹⁷

In South Africa, the West Indies and the African colonies, American penetration also proceeded, to a varying degree and perhaps not on the scale of the other Dominions and areas. But in these parts of the British Empire, as also in the Middle Eastern and Mediterranean British sphere of influence, economic penetration was supplemented by naval, military and air bases, offering an opportunity for the postwar expansion of airlines and communications not likely to be overlooked by the American corporations. And in the South American zone of British influence, especially in Brazil and to a lesser extent in Argentina, wartime expansion by the American interests was especially marked in preparation for a determined postwar drive to establish unchallenged supremacy in the southern sphere of Latin America.

The higher industrialization of the leading Dominions and the increased wartime role of the United States in their economies made it still more difficult for Britain to maintain an Empire front *vis-à-vis* the United States. Internal Empire relations were greatly complicated by these wartime developments. Canada became the third nation in world trade, following Britain. With limited internal markets, the greater productive capacities impelled Canada and Australia to seek larger markets abroad. Canada sought outlets in Latin America and the Far

East, while Australia looked towards the nearby markets of Southeast Asia. It therefore became increasingly difficult for Britain to maintain the system of Empire preferences on the basis of exporting manufactured goods and importing food and raw materials, for this no longer met the requirements of the leading Dominions. Thus the weapon which Britain had come to count upon heavily since the Ottawa Conference of 1932, when preferences replaced free trade within the Empire, became less effective.

While holding on to Empire preferences for whatever bargaining power they might offer, British policy sought to exploit the common fear aroused among all lesser countries by American expansionism. A public exchange between Lord Halifax, British Ambassador to the United States, and the Canadian Prime Minister Mackenzie King at the beginning of 1944 was illustrative of the tug-of-war between Britain and the United States. In a speech in the United States obviously intended to halt the inter-American direction of Canadian policy, Lord Halifax proposed that the entire British Empire should "pursue in all matters of external relations a common policy to be framed and executed by all the governments of the Commonwealth." To this, the Canadian Prime Minister replied in the House of Commons on January 31, 1944:

In meeting world issues of security, employment and social standards we must join not only with Commonwealth countries but with all like-minded states, if our purposes and ideals are to prevail. Our commitments on these great issues must be part of a general scheme, whether they be on a world basis or regional in nature.

While the leading Dominions increasingly fell within the orbit of United States influence, the main crisis of the Empire developed within the colonial sector. The crisis extends back to World War I. Since then, and especially in Asia, the movement for national liberation matured rapidly—unevenly, with many twists and turns, but nevertheless spreading, and powerful enough to create a continuous and chronic crisis. This

cumulative political crisis was heightened by World War II, which unsettled all colonial relations.

The defeat of Germany and its partners in Europe left hanging in the balance a number of secondary and dependent empires, not only the Italian and Spanish, but also the Dutch, French and Belgian. Britain's imperial might suffered permanently as a result of Japanese successes in Southeast Asia. Malaya, including the powerful base at Singapore, and Burma passed temporarily to the Japanese, and India was for a time directly threatened. Indonesia, a Dutch possession but closely woven into the British network of colonial power, also fell to the Japanese. Thailand, in the past semi-dependent upon Britain, was also lost, while the huge French colony of Indo-China likewise became a part of the Japanese loot empire.

* Such extensive transfers, even though temporary, could not help but raise anew the question of the reallocation of colonies following the defeat of Japan. It is noteworthy that the Cairo Declaration of December 1, 1943, by Britain, the United States and China made no mention of the treatment of the colonial and semi-colonial areas of Southeast Asia beyond providing that Japan was to be deprived of them. The United States inevitably presented itself as a chief contender in the prospective redivisions, for the most part along the traditional lines of American policy in terms of the "open door" and "free access" to existing empires.

This does not mean to say that territorial acquisitions are excluded by American policy. A general claim was made for strategic bases throughout the Pacific area, as well as in Africa and elsewhere, most of them under American military occupation. These were to serve as the underpinning for the exercise of American military and political pressure over an extensive part of the globe. But the function of this pressure was still seen as supplementary to a main policy of economic penetration. Its aim was to facilitate free entry into the colonial sphere of other powers and to bolster new expansions of the American influence, as in China and defeated Japan. Hand in hand with economic expansionism, supported by a huge naval and air power, the United States had also, in varying degrees growing

less and less as the Pacific war entered its final phases, urged political reform within the colonial world of a kind which would break up the British monopoly and permit American participation on the political plane

Aside from the broader implications of American policy in China and defeated Japan—which are discussed in a previous chapter—the expansion of the United States position in East Asia has the effect of delimiting the British influence in the Far East. Although the British position in China was not completely eliminated, the United States had already made great headway by the end of the war in establishing itself as the dominant influence in Kuomintang China. This not only placed the British interests at an enormous disadvantage from the viewpoint of restoring their previous spheres of penetration in China, but provided the American interests with an important base from which they could exert pressure throughout Southeast Asia. In at least one part of China—the portion dominated by the Kuomintang government—the objective of the “open door,” which had been the traditional American policy, was very near to realization. And from here the objective was to swing the door open into the colonial zones of Britain, France and the Netherlands.

In the leading role played by the United States in the Pacific War, as compared with the insignificant part played by Britain, the American government had an advantage it was quick to exploit. This it did first of all in Japan, the erstwhile ally of Britain in the Far East. By assuming full responsibility for the occupation and imposing its own policies in the treatment of Japan, the United States took over the control of the key imperialist position in the Far East. How successfully this position could be maintained was still to be seen. But, among other things, the United States had assumed by far the dominant role in the Far East, *vis-a-vis* Britain. And it seemed obvious that the United States would utilize the advantages already gained to press for considerable participation in the exploitation of South-east Asia.

The American expansion in Asia and the drive towards an even greater economic share within the colonial sphere became

a big factor in intensifying the crisis of the colonial world, and especially of the British empire

However, the most serious threat to the old colonial structure came from an entirely different direction. Hard on the heels of Japan's defeat came the first big colonial revolts, in French Indo-China and Dutch Indonesia. Before the former rulers could return in force, the Annamite and Indonesian liberation movements established independent republics and took up arms in defense of their sovereignty.

Rich in raw materials and situated at a strategic crossroads of empire, Indonesia had long been considered among the greatest colonial prizes. While the French had been able to maintain more or less of a monopoly over Indo-China, the Dutch have had to share the spoils in Indonesia with the British. The speed with which the British intervened in both colonies, with the professed aim of returning them to their former rulers, who were too weak themselves to suppress the republics, revealed how general and deeply rooted was the colonial crisis. A break in the colonial world anywhere would be certain to affect every major empire, and especially the nearby British colonies of Malaya, Burma and India. If the United States was so quick to stake out claims in East Asia, the British were certainly not to be found napping in Southeast Asia.

Through the occupation of northern Indo-China by the armies of the Chinese Central Government, the United States had already gained an approach towards this area. From the Philippines, whose people had some traditional ties with the Indonesians, the United States could also hope to influence the people of the former Dutch colony. And through its command of credit and resources the United States was counting upon obtaining new footholds in this rich colonial area. Despite the principles proclaimed in the Atlantic Charter which President Roosevelt had stated applied also to the Pacific, the American government showed no disposition to oppose the re-establishment of colonial rule. To be sure there were suggestions about collective trusteeships and joint regional councils, in which the United States would participate alongside the colonial powers. The objective was not to do away with colonialism as such, but

to reshuffle colonial rule in a manner which would break up the old colonial monopolies

British power was most seriously challenged in India. Following the repressions of 1942, the independence movement was for a time stalemated. But the deep political fermentation proceeding in India could not be stopped, and following the defeat of Japan the independence issue was again pressed forward. Wartime economic developments aggravated the political crisis. The food famine and highly inflated prices stirred the peasant and labor movements into greater activity, and they came to play a more important role within the independence movement. Expansion of the war industries strengthened the Indian capitalist groups, while American economic penetration progressed considerably during the war.

Wartime industrial expansion in India lagged far behind the pace of expansion in the Dominions, being basically retarded by the colonial relationship with England. Indian industrialists complained bitterly that Britain would not permit the growth of industry on a scale made possible by the resources at hand, despite the need to supply the Far Eastern war theaters. While it is doubtful that Indian industrial production as a whole exceeded the prewar level, notable advances were made in supplying consumers' goods, in some lines sufficient to supplant imports, in expanding existing industries such as iron and steel, and in establishing some new ones.* American exports to India also increased greatly during the war. Including Lend-Lease they were nine times greater in 1942 than in 1939, commercial shipments alone being over twice as much.¹⁸ The weakening of Britain's credit and investment position in India, combined with the strengthened position of the Indian industrialists and the wartime expansion of United States exports, were important supplementary factors intensifying the political crisis. The Indian industrialists showed an increasing disposition to link up with American business interests in their planning for post-

* According to the U.S. Department of Commerce, steel output was increased 40 per cent during the war, engineering workshops have grown in number from 800 before the war to nearly 1,500 by mid-1943, including 23 new railway workshops. Many other expansions and production of new products are noted, especially in armaments and munitions.

war industrial expansion, and some American corporations tended to seek Indian rather than British cooperation in extending their interests in India

It is unlikely that the paltry concessions offered by Britain will suffice to abate the independence movement or stem the competitive penetration of the United States. It became obvious after the Labor government came to power, that far more basic political developments within Britain would be necessary before a radical change in the colonial policy would take place. In the meantime, all the elements of a major crisis accumulated at a swift pace in India, deeply influenced by the independence revolts in Southeast Asia.

There remains to be considered the general sphere of relative military strength, as a long-range factor affecting the world positions of Britain and the United States. The armed power of the United States is determined in the first place by its overwhelming industrial superiority. This was demonstrated dramatically in World War II. In addition to supplying huge amounts of war materials to its allies, the United States organized and equipped almost from scratch armed forces totalling 12 million men, built up the greatest air force in the world, and fashioned a navy perhaps greater than all other fleets combined. Thus, measured purely in quantitative terms—the effective military strength of a nation involves other important and even decisive moral and political factors—there is no question that the United States enjoys complete military superiority over Britain.

The serious weakening of Britain during the war, together with the rapid economic and military expansion of the United States, resulted in a shift of the world position of the two leading imperialist powers. This shift had not yet been completed, and it would not be completed without further crises. But the change was already far enough advanced to constitute more than a tendency or merely a potential shift of power, which would have dragged out over a longer period if the war had not intervened.

This shift of positions of Britain and the United States, taking place as it does in the midst of a world political crisis, sharpens

the basic antagonism between the two powers and deepens the crisis. Even if Britain should be forced to surrender many vital positions to the United States, and assume more and more the role of a satellite, this cannot take place without arousing a political upheaval of major proportions within England, and stimulating a radical change in the vast colonial empire.

It may well be that the great strains and difficulties of keeping the Empire together will be too much for the British ruling class, and they will become more inclined to lean upon the United States for support. It is quite possible that the British ruling classes may purchase American economic support by playing the role of bulwark of reaction in Europe and in the colonial world. Strong tendencies existed on both sides of the Atlantic at the end of the war to find common ground in an anti-Soviet front in both Europe and Asia. But developments in this direction would mean the eventual subordination of Britain to the United States. And this is a prospect that the English people can hardly be expected to welcome. The British imperialists are not likely to give up without a violent struggle, but should they find subordination to the United States the acceptable alternative to basic progressive changes in Britain and the Empire, the British people would be impelled to find another way.

VII. Monopoly in Britain

FORMERLY THE CLASSIC land of laissez-faire, Britain has relinquished this role to the United States where trustified "free enterprise" now dispenses the freedoms to the world. The doctrine of the cartel has become dominant in England. Hand in hand with the shifting world positions of Britain and the United States, there also occurred a significant change in the structure and policies of British monopoly.

As in the United States during the interwar years, Britain experienced an accelerated movement of amalgamation and combination in industry. This developed simultaneously with an extensive cartelization of the economy, at a much higher level than a similar tendency in the United States. What is particularly distinctive in the British development, as compared with the American, is that it took place against the background of a general economic decline. In the United States the expansion of monopoly after World War I proceeded together with continued industrial expansion at home and growing economic penetration abroad. In Britain the growth of monopoly proceeded simultaneously with the general stagnation of industry and the weakening of Britain's position in the world economy.

The cartel movement in England thus arose as a "defense mechanism" against the inner disintegration and against the encroachments of rival imperialist powers.

1 BETWEEN THE TWO WARS

Because comprehensive figures have been lacking, it has been generally assumed that concentration of production in British

industry is relatively low, thus reducing the scale of effective monopoly within the country. But in 1945, government data were made available based on the production Census of 1935, which provide for the first time a general measurement of concentration in the principal industries and trades.

As with the data quoted for American concentration, the British figures are also presented as a minimum of concentration, since the analysis does not take into account the much greater control over production established by various types of interlocking and corporate control. And the summary results of this analysis reveal a concentration of production which in degree is not substantially less than in the United States. Allowing for the differences in the magnitude of production in the United States and Britain, units employing over 500 workers may be considered the largest undertakings. Such firms numbered 2,280 in 1935, and they employed 52 per cent of the total number of workers in productive industry.

That is the general picture. But in some industries and trades the concentration is much higher. Measured by the proportion of workers employed in a given industry by the three leading firms, it was found that concentration was more than 70 per cent in 33 industries and trades, and this does not take into account wider monopoly control established through agreements and trade associations. For all industry the concentration is calculated at 26 per cent, that is, about one-quarter of the number of persons in an "average" productive industry in 1935 were employed by the three largest units in that industry. The highest concentration in industrial groups is found in the chemical and allied trades (48 per cent), miscellaneous group (47 per cent), public utilities (44 per cent), engineering, ship-building and vehicles (42 per cent), iron and steel (39 per cent), food, drink and tobacco (32 per cent). But when an analysis is made by commodities, it is found that well over 100 products are the complete monopoly of one or two firms, one-fifth being chemicals, and including basic and strategic products like armored plate, nickel, high explosives, and crude zinc. A wide variety of commodities are also controlled to the extent of 90 and even 100 per cent by the three leading firms.

The analysis also reveals a very high integration of the coal, iron and steel industries. It was found, for example, that 14 units operating blast furnaces, employing more than 1,000 workers each, and also owning coal mines, produce 73 per cent of the total output of iron-ore and nonstone. It should be recognized that these figures relate to the situation in 1935. Since then extensive amalgamations and combinations have taken place, to mention only two instances the Unilever and Lever Bros merger in the food field and the Imperial Chemical expansion absorbing 13 additional companies.¹

In general, the degree of concentration in Britain, which serves as the groundwork for monopoly, cannot be considered as differing essentially from the corresponding situation in the United States. While the scale of American production is much greater, Britain has developed a high level of concentration, especially in the basic and heavy industries. As compared with its chief competitors,* British concentration of production in the twenties seems to have attained about the same level as in Germany but lagged behind the United States.² Undoubtedly, after 1925 the rejuvenation of the German economy with the aid of American capital resulted in a much greater concentration of production than during the corresponding period in Britain,

* In 1930, in the smelting and rolling division of the iron and steel industry, in the electrical and mechanical engineering, shipbuilding, automobile, airplane and silk industries over 50 per cent of the workers were employed in establishments of 1,000 or more workers.

Exact comparative figures are not available, since similar statistical methods are not used in the three countries and industries are classified differently. But a few roughly comparative figures may suffice to indicate the relationship. In the British iron and steel industry as a whole in 1930, 25.6 per cent of the workers were employed in plants of over 1,000 workers. In the United States in 1929 the ratio for the Census group of "iron and steel and their products" was 41.7 per cent, and in Germany a roughly equivalent group is classified as metallurgy, where the ratio in 1925 was 41.6 per cent. In this case, Britain was far behind both the United States and Germany. But she came off much better in the field of machinery and equipment, where a rough comparison can also be made. According to the British classification of 1930, 35.5 per cent of the workers in the mechanical engineering industry and 57.3 per cent in electrical engineering were employed in plants of more than 1,000 workers. For 1929, the United States Census gave the corresponding figures for transportation equipment at 66 per cent and for machinery at 34.8 per cent. The 1925 figures for Germany place the ratio in electrical machinery at 39.4 per cent, and in other machinery at 39.6 per cent. In textiles, a key export industry for Britain as also for Germany, the corresponding figures were: Britain (1930) 17.5 per cent, United States (1929) 18.5 per cent, Germany (1925) 13.4 per cent.

which was in general a period of industrial stagnation. But the data do indicate that concentration in Britain is highly developed, and not, as has been assumed in economic literature, ranging far behind the development in the new industrial countries

The main difference is to be found not so much in varying degrees of concentration of production, although here as in capitalist development as a whole the ratio is uneven as between countries and even as between industries. The main difference is to be found in the technical backwardness of British industry. As previously indicated, the important role played by rentier income from abroad founded on an extensive Empire tended to perpetuate the backwardness of British industry. It remained static within a framework of high concentration, which in turn tended to maintain the state of general stagnation.

This was the foundation upon which the extension of monopoly took place in Britain between the two wars. With the exception of new "laboratory" industries in the chemical and synthetic fields, the super monopolies were erected upon an inferior industrial base. The giant mergers which occurred during the interwar decades in the iron and steel, coal mining, textile, food, automobile and transport industries—while eliminating some of the more inefficient units together with the financially weaker but not necessarily technically inferior establishments—did not result in general technological improvement. The effect of the growth of capitalist monopoly in general is to slow down technological advance. In Britain the result of the monopoly movement of the twenties and thirties was in the main to freeze British industry at a low level of efficiency. "High profits and low turnover," in the words of *The [London] Economist*, became "the dominant slogan of British business."

Instead of renovating their backward industry, the British monopolists sought other means to safeguard and protect their dwindling share of the world market. Amalgamation and cartelization at home, increasingly made compulsory by government intervention, became the chief instrument for protecting the home market and obtaining a substantial share in the cartel

divisions of the world market. By the time free trade was completely abandoned in 1932, the merger and cartel movement in England had in effect already abolished free trade in Britain's foreign commerce. To maintain a high level of profit while restricting production in backward and high-cost industries required great centralization of control. The efficiency of monopoly control over the economy took the place of efficiency of production. That became the keynote of the cartelization movement in England.

The movement was essentially defensive, an attempt to protect Britain's economic holds against the growing encroachments of her main foreign competitors. But while the "feverish amalgamations" of 1925-1929 in the United States took place on a wave of industrial expansion and were inspired by the whole boom atmosphere reigning in America, the English development took place within a general economic decline and was shoved forward as a means of holding off the further deterioration of Britain's position.

Government intervention to speed up the cartelization of the economy had already developed to significant proportions before World War II. An American student of the subject summed up the situation as follows:

The British Government as well as some of the industrial leaders have come to the realization that the international economic environment, not to speak of the political environment, has changed too basically to make it possible for British industry to recover its old positions or to adjust itself to the new conditions by the traditional individual efforts, especially since in some countries [i.e. chiefly Germany] whose competition is most directly influencing the British foreign trade position, government intervention controls have assumed enormous proportions³.

"Traditional individual methods" were superseded by collective efforts from two directions. Under the leadership of the industrial monopolies, and with the increasing sponsorship of the government, a whole network of trade associations of a

cartel type was developed within industry, and on a regional as well as national scale. Simultaneously with the support of the leading monopolies the government undertook through legislation to force combinations, mergers and cartelization in a number of industries. The process was facilitated by the concentration of bank capital. Not including the Bank of England—itself a gigantic concentration—75 per cent of all bank deposits in 1936 were held by the "Big Five" London banks.⁴ Central control of credit was a most effective weapon used by both government and private monopoly to force greater centralization.

The British trade association* became the principal medium of monopoly control. This development was greatly accelerated by the great crisis of the thirties and the outbreak of World War II. The development of the movement is described by Robert A. Brady as follows:

Every industry and trade both locally and nationally acquires its appropriate association: the pressure on "outsiders" to join tends increasingly to expand the coverage of each appropriate association so as to include every single business concern falling in each separate classification or category; these tend increasingly to band together first locally or regionally then nationally by industries, trades and (cross sectional) regions, in *peak* or *central* bodies such as the Federation of British Industries.

It is equally clear that the bulk of the larger and more powerful trade associations are dominated as a rule by a few large inside concerns. The trade association becomes an effective cartel instrument to promote the monopoly policies of a single or a small group of giant concerns.⁵

* A recent English survey (*Planning*, May 12, 1944, London) finds that there are approximately 2,500 national or regional trade associations, in addition to employers' associations concerned mainly with labor relations, in the United Kingdom, as compared with 500 in 1919. The movement got fully under way in 1919 and 1920, and it developed again rapidly in the early thirties in response to the economic crisis. The trade associations are of an open cartel type, having as their stated purpose control of prices through agreements, control of channels of distribution, regulation of output and market-sharing, and the centralization of selling activities.

The Federation of British Industries* described by Brady as the peak organization of the trade associations, already by mid-1935 advocated a program for the thorough-going cartelization of the economy. In a special report it urged the organization of British industry along the following lines:

(1) elimination of excess plant capacity, bringing about "co-ordination between supply and demand" and promotion of greater "concentrations of output in efficient and up-to-date plants" (2) limitation of "new entrants to an industry in order better to relate productive capacity to market demand, (3) prevention of certain firms in some trades from gaining an "unfair advantage" without bearing their due proportion of development expenditure, such as centralized propaganda and research (4) promotion of greater unity amongst British industries in negotiations with foreign competitors and increased stability in world trade conditions (5) expulsion from the conduct of business of firms "which can never hope to become profitable"4

By the time this program was formulated, the cartel doctrine had already become the keynote of government economic policy. A recent study of British trade associations by the Political and Economic Planning group in England, found that the most important single activity of the associations was the carrying on of discussions and negotiations with the government.7 The close integration of government and private business policies is instanced by the government's use of the tariff weapon to bring about the formation of the British Iron and Steel Federation, accompanied by a number of amalgamations in the industry, and to force the International Steel Cartel to come to terms with the British steel industry. In other industries as well, the government brought pressure to encourage cartelization through the trade associations. Government policy of compulsory amalgamation, price-fixing and control of royalties was applied most

*Organized in 1917, the Federation of British Industries by 1925 already comprised 195 trade associations and 2,100 individual firms in every industry in the country, representing a capital of about \$30 billion and employing over five million workers.

completely in the coal and textile industries,^{*} which suffered most from the sharpened world competition *

Thus, by the outbreak of World War II, the emphasis of economic policy in Britain had shifted decidedly towards the encouragement of combination and cartels. This shift was carried through under the joint auspices of government and industry. Government-sponsored cartelization of the British economy did not reach the same level as in Germany under Hitler, but it exceeded by far the extent of a similar development in the United States. The whole tendency was hastened by the growing threat from Germany, where the highly monopolized and centralized economy was harnessed to the aggressive program of German imperialism.

2. WARTIME MONOPOLY

In general, during World War II the scope and thoroughness of state control over the economies of the leading capitalist countries exceeded by far a similar development during the first war. The much higher level of concentration reached during the interwar years and the increased integration of complicated industrial processes, provided a more effective medium for centralized controls.

In Britain the integration of Government and private monopoly controls, already well developed on the eve of the war,

*The Coal Mines Act of 1930 was a measure of forced cartelization. It assigned production quotas and minimum prices, empowered the government to prevent amalgamation plans if the owners were unable to do so, in a subsequent strengthening of the Act, selling was centralized and the payment of royalties unified. On May 24, 1930, the Coal Commission proposed the amalgamation of mines, which would reduce the number of units from 959 to between 30 and 60. In cotton textiles, concerted efforts were also made to centralize the industry. In 1929 the Lancashire Cotton Corp. was organized with the assistance of the Bank of England. It amalgamated 139 mills, of which 53 were completely scrapped. The Cotton Spinning Industry Act of 1936 was an effort to bring about even greater amalgamation. It provided for the "elimination of redundant spinning machinery by means of a board having power to acquire property and to borrow and levy money." In August 1939 the government went even further in a new reorganization act, which had as its purpose the elimination of overcapacity and the fixing of prices "for an efficient, and only efficient, firm" in any section of the industry. On the outbreak of war, the operation of the Act was suspended.

was spurred forward by the extreme danger to which the country was exposed by the early victories of Germany. The trade associations were more closely knit together, "outsiders" were brought into the associations by government action, industries were reorganized principally through further mergers, and the whole was placed under greater centralized control, shared by government and big industry. The trade association, finds *The Economist*, was transformed "from a body of doubtful legality, a conspiracy in restraint of trade, into a favored instrumentality of the State, until membership in such a body has become as necessary to the businessman who wishes to be successful as an old school tie has been to the ambitious Conservative politicians."

Lord McGowan, chairman of Imperial Chemicals, evidently expressed the dominant opinion in big monopoly circles when he said in the House of Lords in July 1941 that British manufacturers "have ceased to believe in the inherent superiority of free or extreme competition and have moved a long way in the direction of co-operation in industry and central action by the government." Probably this view is not shared by all sectors of British industry, and certainly not by the smaller producers, but it does reflect the fact that the wartime development has left a permanent imprint upon the British economy.

To a much greater degree than in the United States, the British monopolists directly took over the key control posts in the wartime government apparatus, and from these positions they vigorously applied their cartel policies. From the Cabinet ministries to the national and regional control posts for the various economic branches were to be found the leaders of the monopoly interests in the industry or trade affected. The list of officials in the Ministries of Supply and of Food, the two leading war control agencies, reads like a Who's Who of industrial magnates.

What effect has the war economy had on the monopoly capitalists?—asked Harry Pollitt, the British Communist leader, in his book *How to Win the Peace*—Economically this section has become strong as compared with the small

businessmen. The directors of Production who plan Government orders, the controllers in the principal National Control Boards, and the Government ministers in the key positions, have been drawn from their ranks—men like Sir James Lithgow in shipbuilding, Sir Andrew Duncan [former president of the Iron and Steel Federation] at the Ministry of Supply, nominees of the Unilever Combine at the Ministry of Food, representatives of ICI in sixty-one key control commissions, and Sir John Anderson, formerly connected with Vickers and ICI, whose record of political reaction is known all over the world, as Chancellor of the Exchequer.¹⁰

As to the results of the direct supervision of the war economy by the monopolists in government posts, Dutt says

This system of war organization has thus strengthened, in place of correcting, the deficiencies of the existing monopolist restrictive structure of British industry. The monopolies have been set up in control of themselves. This self-rule of the monopolies, masquerading as public control, has made it possible for them to use the controlling machinery, not to drive forward maximum production, but to strengthen their monopolist position and protect their special interests even at the expense of maximum production. Criticism of this system has been expressed by all sections of opinion.¹¹

Monopoly power in the government was bolstered by the wartime Parliament, which to a very large extent had become the gathering place of the corporations. A carry over from the elections of 1935, Parliament was dominated by 265 Tories holding 512 directorships of corporations, according to one source. According to another estimate, 181 MPs held 775 corporate directorships.¹²

From their favored positions in the government apparatus, the monopolies were able to extend the merger and cartel drive beyond the heavy-goods and war industries to include the con-

sumers' goods trades, which had presented the greatest difficulties in the prewar days. In the spring of 1941, in connection with a drive to release more labor for the war industries and the armed forces, the government took measures to concentrate the production of many consumers' goods in a reduced number of factories. According to the plan, the separate industries through their trade associations were to take the initiative in working out the concentration, subject to the approval of the government Board of Trade. But if any industry proved unwilling or unable to carry through the reorganization, the government was empowered to enforce a concentration of production through its control of war material supplies, labor and contracts. A special committee of the Industrial and Export Council was set up to execute the plan.

The general scheme was to set up "nucleus" firms in which the production of each industry was to be concentrated. The nucleus firms were to be accorded full government protection. Various methods were to be employed to concentrate production in the chosen units, among them, merging of firms, formation of holding companies, and a cartel-type combination whereby the closed firms would market the goods produced by the nucleus firm. The plan was fully supported by the Association of Chambers of Commerce and the Federation of British Industries, without whose initiative and support it could hardly be introduced. An indication of how the plan worked out in practice is shown in the cotton industry, where the Board of Trade approved 111 spinning firms as nucleus firms, closed down 61, and left 229 for further consideration.¹⁵

There could be no more effective scheme for forced concentration, especially in industries where production is distributed over many small establishments. In face of extensive criticism of the plan, the Cabinet promised to take measures to assure the speedy reopening of the closed plants after the war. After the concentration had been at work for a number of years and the nucleus firms had acquired new processes and greater efficiency, it is hardly likely that most of the closed firms would be able to reopen. It is more likely that the greater concentra-

tion and cartelization of the consumers' goods industries, brought about during the war, will remain

The British inner cartel structure was also prepared during the war for an energetic and more unified drive for world markets. Under the Industrial and Export Council—comprising government officials, and business and labor leaders—industry was urged to combine for export. By 1944, some 280 export combines were in existence, practically identical with the trade associations by which they were staffed. This campaign, in turn, acted as an additional stimulus to bring into the trade associations groups previously outside and to further the coalescence of trade associations into regional and national groups.¹⁴

Britain emerged from the war with a more highly cartelized economy and a well integrated system of monopoly control. The monopolies were able to utilize the whole apparatus of wartime government controls to extend the cartelization of England. The mergers and combinations thus brought about, and the "industrial self-government" imposed through the trade associations are a permanent heritage of the war. Whether the cartelized system would continue after the war to be so intimately and directly tied into the government apparatus, depended primarily upon political developments in England.

As the end of the war in Europe approached, voices were increasingly raised to urge the lifting of government controls as soon as possible. As Harry Pollitt suggested, "the monopolists are afraid that in the postwar world they will be more planned against than planning if the idea once catches on that economic forces can be organized and got under control. If they could establish for themselves once again a Tory majority in Parliament they might change their tune." But as long as the political future remained obscure, "they would rather move out of Whitehall to their own secluded board rooms where they cannot be ordered to render an account of their doings to Parliament."¹⁵

In any case, the cartelized economy was being geared for a sharp competitive struggle, principally against the giant American trusts for world markets and spheres of penetration. The British monopolists entered the lists as advocates of cartel

allocation of markets and of "regulated competition" while the American corporate giants appeared as protagonists of the four economic freedoms—"free enterprise," "free competition," "free access" and "free trade"

3 THE CARTEL POLICY

The cartel policy predominant in Britain stands in sharp contrast to the policy prevailing in the United States. The main point of difference was rather succinctly expressed by William L. Batt in a speech before a group of American businessmen. After describing the tremendous wartime expansion of industry in the United States, he said:

Britain is emerging from the war far less able to compete than she was even in 1939. I think you will begin to see why Britain is not today as anxious as we are to have wide open and free markets throughout the world.

So we are interested in a freer flow of trade not only as an opportunity to add 10 to 15 billion to our national income but also as a means of striking a blow for peace [an objective it should be inserted which Britain also professes]. Therefore, this thing has some of the qualities of a crusade, and it is not to be taken lightly.

The British by contrast will emerge from the war badly wounded and feeling they must have protection for their markets, at least for some time, even if it means using some of these unhappy devices [cartels, barter, etc.], and here I think, you have the fundamental elements of what might easily become a head-on clash between British and Ameri-

Some evidence of British response to the American "free-trade" pressure was seen in a statement appearing in a Cabinet White Paper on unemployment issued in May 1944. One of the few official statements of the wartime coalition Cabinet on the subject of cartels, the pertinent passage says:

There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest, but the power to do so is there. The Government will therefore seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines, and to take appropriate action to check practices which may bring advantage to sectional producing interests but work to the detriment of the country as a whole.

In this statement there is nothing to indicate a change in the established British policy. By saying that cartels do not necessarily work against the public interest, it agrees that many if not all do operate in the public interest. In proposing that the government keep informed of cartel arrangements, the statement merely implies that investigation and registration of such agreements may become required. Above all, the Cabinet made clear in this statement that if government action is taken it will be along the lines of compelling all combines and cartels to operate in accordance with the national policy as against a purely sectional interest.

In postwar Britain, national policy may undergo many changes, not excluding sufficient popular participation and pressure upon government to force state intervention in the economy against the monopoly combines. Such an eventuality was foreseen in the midst of the war even by the Prime Minister, who gave public acknowledgment (March 21, 1943) to the growing demand for the nationalization of certain key but sick industries which were hampering the war effort.

There is a broadening field for state ownership and enterprise—he declared—especially in relation to monopolies of all kinds. The modern state will increasingly concern itself with the economic well-being of the nation, but it is all the more vital to revive at the earliest moment a widespread,

healthy and vigorous private enterprise State enterprise and free enterprise must both serve national interests and pull the national wagon side by side

This was said at a time when Churchill's wartime position of leadership imbued the Tories and big business circles with confidence that they would be able to retain full direction of the state apparatus after the war. This picture of government and monopoly working side by side under conditions of increasing government intervention in the economy remained pleasing as long as big business held all the decisive posts in the state apparatus. But the first postwar election in Britain, raising the possibility of another and less "dependable" political combination in power, found the Tories battling valiantly against even the elementary nationalization proposals of the Labor Party, in terms reminiscent of the Nazi campaigns against "Bolshevism."

Whatever the vagaries and necessities of Tory politics, the British monopolists remained consistent throughout. In anticipation of victory over Germany big business was practically unanimous in expressing its intention of extending the cartelization of the British economy as the basis of the postwar drive for markets. There was general agreement on one basic point: that the process should be carried out through "self-government in industry," i.e., should be left to the leading monopolists in each industry. Differences related mostly to the degree that the state apparatus should be involved, directly or in a general supervisory capacity, in enforcing certain central policies and in forcing the independents to join the trade associations. The Federation of British Industries, for example, was certain that "the future organization of industry should be decided by the industrialists always subject to the overriding principle that it must be in the national interest." While bewailing the fact that the trade associations could not always force independents into the domestic cartels, the Federation remained wary of government intervention on the scale that would be necessary to achieve this objective.

Others were less timid. The Association of British Chambers

of Commerce agreed that each industry should formulate its own policy, but it proposed to link the cartel structure directly to the state through a Council of Industry, representing the employers, commerce and labor, and subject to approval by the government Board of Trade. The objective of this plan is to obtain effective and centralized co-ordination of domestic and foreign economic policy. This general plan was endorsed by 120 leading industrialists who issued a separate program, *A National Policy for Industry*. They proposed to give greater powers to the Council of Industry, empowering it to consider "matters of high economic policy," act as the central medium of contact between government and industry, and represent British industry as a whole in the field of international relations. According to their scheme, representatives of labor were to be excluded from the Council and membership in the trade associations was to be made compulsory.

Bolder than any of these, is the program of a group of monopolists led by Sir Edgar Jones, a former director of Courtaulds, Ltd., and an executive of the international tin cartel. The objective of this scheme, known as the World Alliance Plan, is to organize a single world-wide cartel network to control completely production, prices and markets.¹⁷

While certain differences appear in the postwar program of British big business, these differences are only of degree and emphasis. The general policy supported by all main sectors favors further extension of the cartel system and centralized control of the economy under the monopoly leaders. The keynote is regulated competition—regulated by big business—through the trade associations and the government apparatus.

The cartelization programs are at the core of the general economic policy of strengthening all defensive mechanisms against the economic threat from the United States, and against political "instability" in Europe, in the first place, against the Soviet Union. Practically all leading British spokesmen, ranging from a liberal economist like Sir William Beveridge to the Federation of British Industries, emphasized the value for Britain of regional economic arrangements, such as the Empire preference system and the sterling area, while at the same time

exploring the possibility of restraining American economic expansion through Bretton Woods and similar proposed agencies. The state of opinion was summed up by a writer in a leading British banking journal as follows.

The debates on Bretton Woods have revealed how strong is the body of opinion which wishes to preserve the sterling area not as what it was, but as what it is — an instrument of economic warfare, a battering ram with which to open the door to unwilling markets, a spiked fence to keep unwanted goods from unwanted sellers out of the Empire market.

It may well be that this country, together with members of the Commonwealth and certain countries of Western Europe, may ultimately have to bind themselves into such an economic alliance for purely defensive purposes perhaps at first as a protection against the excessive and contagious instability of the United States economy, later possibly against the encroachment on world markets of the Soviet State economy. But it would seem the height of folly for the sterling countries to make the first offensive move.¹⁸

The dispute within the leading economic circles in Britain is not over the question of whether regional economic arrangements of the kind which prevailed before the war should be scrapped or not. The dispute is on how to restore these regional arrangements where possible or create new ones, and how to utilize them in the struggle for world markets and economic penetration. This is shown very clearly by a passage from Sir William Beveridge which has been widely quoted in British economic literature.

In terms of convenience for traffic, world-wide multilateral trade may be likened to an elevator speedy but capable of going out of action. Regional multilateral trade may be likened to a staircase, less speedy but consistent with reasonable comfort. Bilateralism is the fire-escape, clumsy but certain. We may hope that the world after this

war will be equipped with all modern conveniences for bringing men together for their common advantage. We should do our utmost to bring such a world into being. But, in constructing the new edifice, we cannot prudently leave out the fire-escape and the staircase, until we are sure that there will be no fire and that the elevator will always be in action.¹⁹

This cautious approach towards multilateral trade, as envisioned in the American economic policy, arises above all from the threat to Britain's world positions from the economic expansion of the United States. Regional multilateral trade—economic blocs of groups of countries—is seen as a necessary defense of British interests, while bilateral trade—barter and other exclusive trade relations with individual countries, as developed especially by Nazi Germany—is not excluded. The Federation of British Industries in a special policy report on international trade raised as a main objective the resurrection of the prewar regional economic blocs with which Britain had been associated in one form or another in Western Europe as well as in the Balkans and Central Europe.²⁰

Maintenance of Empire barriers and of regional blocs, more or less along prewar lines, is tied in with the accompanying program of restoring the world cartel structure of prewar times. Churchill's famous phrase that he did not become His Majesty's Prime Minister to preside over the liquidation of the British Empire applies with equal force to Britain's economic domain. He was expressing the basic approach of the British monopoly capitalists, who were determined to maintain their positions against all threats from within and from without, using every economic and political weapon at their disposal. The main tendency of their policy was to restore the prewar status as nearly as possible, whether in the colonies or in the periphery of the Empire.

As already seen, this approach was expressed in the Western Bloc policy which came to the fore soon after the defeat of Germany, and in the growing determination in British monopoly and government circles to restore the West German

economy as part of this bloc. As politely suggested by the financial writer already quoted, a West European bloc might serve the double function of defense against American economic penetration and of creating a new base for the reactionary stabilization of Europe.

It remained to be seen whether political development in Western Europe, especially in France, would permit the realization of such a bloc. Nor could it be taken for granted that the United States, exerting increasing pressure throughout the Empire, would be entirely satisfied with a British-dominated bloc in Western Europe. And, finally, it was by no means settled that the British Labor Government could for long continue the Tory foreign policy while postponing or watering down the internal reforms promised in its program without arousing a powerful labor and democratic opposition within England.

VIII. The Expansionist Freedoms

AMERICAN POLICY stresses free enterprise, free competition, free access and free trade. These are the four freedoms of economic expansionism. They figure in practically every programmatic statement of government policy. They are to be found in the Atlantic Charter, the lend-lease agreements, the Charter of the Americas and in every major utterance of Administration spokesmen. Side by side with the espousal of the freedoms there is usually to be found an equally emphatic insistence upon the need to remove restrictions and barriers, of a governmental or cartel nature, which interfere with the expansion of world trade, and especially American trade.

It is the avowed aim of the American government to induce all other nations to accept these principles. Big business and government are engaged in a crusade to impose this program upon the rest of the world. The industrial supremacy enjoyed by the United States, the vast credit resources at the disposal of the government and the corporations, and the more active political role of the country in world affairs are powerful instruments in the crusade.

The liberal flavoring of the program tends to obscure its essence. Undoubtedly many opponents of monopoly and advocates of international co-operation fail to recognize the expansionist content of the program. It is easier to see monopoly in the cartel policy of the British, it is more difficult to see the trusts in this catavan of freedoms.

1. FREE ENTERPRISE

"Free enterprise" as used in American economic discussion means one thing: self-government of industry and private own-

ership as opposed to public ownership and control imposed upon industry. The term has no meaning whatever when used synonymously with "free competition" to describe the state of the American economy. Free enterprise and free competition have long since been superseded by monopoly, which is as supreme in the United States as in Britain. The real question, as far as big business is concerned, is to what extent the controls over production and the market shall be shared with the government apparatus.

This question cannot be posed in general terms, for or against government intervention in the economy. As in other countries the trend has been towards increasing government controls of one kind or another, and this trend has been greatly accelerated by World War I, the world economic crisis and World War II. In the United States this development did not attain as high a level as in other countries, but its presence is unmistakable.

The American government participated in international commodity agreements covering a number of agricultural products. The Webb Pomerene Act authorized export associations, cartel-type organizations, to operate on cartelized world markets. The Miller-Tydings Act permits manufacturers and retailers to act jointly to control retail prices of food and drugs. For some years the Guffey Coal Act attempted to enforce minimum prices. The production of oil in the United States is strictly pro-rated. During the great crisis, the government-imposed but business self-regulating NRA Codes for a time legalized many cartel practices and strengthened the cartel features of the trade associations.

Government control over domestic air traffic is so complete that it led Lord Swinton, head of the British delegation to the International Civil Aviation Conference at Chicago, to complain in a report to the House of Lords: "Nobody can 'muscle in'—I beg pardon for the expression—nobody can enter and compete in their internal services."

The domestic market was protected by one of the highest tariff walls in the world. Government regulation of agricultural production and marketing is an established practice. These are only some instances of the more recent government interven-

tions, some of them of a cartel type, not to speak of the extension of all kinds of government controls during wartime

Actually, government intervention is not challenged in all instances, nor can it even be said that the principle itself is challenged. The question is intervention for what end and under what circumstances for the purpose of safeguarding and extending the power of the monopolies or of restricting their free operation, under circumstances of greater direct participation of the monopoly capitalists in the state apparatus or of increasing influence and participation of anti-monopoly and democratic forces

Even the most extreme advocates of "free enterprise" want government intervention to assure "free competition." A typical propaganda broadsheet of the Chamber of Commerce, for example, cries for government promotion of the "free market." "Free markets will not remain free without government action." The all-out advocates of "free" world trade are using the government apparatus to hamper participation in cartels, while in Britain the state pressure is used to force participation in cartels. At the civil aviation conference in Chicago (1944) the whole pressure of the American government was brought to bear upon obtaining free competitive rights for the giant airplane monopolies of the United States throughout the world, while the British government attempted to protect its own monopolies by seeking quotas and regulations which would restrict the American combines.

However, as the war in Europe came to an end, American big business as well as government overwhelmingly favored restricting and delimiting the trend towards government intervention in the economy. Certain government controls and aid, especially in the field of foreign commerce and capital investment, were welcomed by some big business circles and actively sought. But as a whole, the prevailing tendency of policy was to permit the free play of economic forces—in a monopoly economy meaning the freedom of monopoly—on the supposition so often proved erroneous that this would solve the major problems of conversion and of world markets.

Although the position may change again as the result of a

crisis, as it did during the crisis of the thirties, big business as a whole remained extremely wary of government controls, especially of the type which would permit the state apparatus to interfere with "self-government in industry". Pending an emergency such as is created by crisis or war, the trusts, greatly fattened by the war profits, counted upon their own strengthened position to maintain domination of the economy, in the main, without government aid. The trade associations controlled by them provided sufficient media through which the cartelized controls could be maintained without supplementary intervention by the state.

The main consideration determining the position of big capital on such questions is the fear that increased government intervention would place at the disposal of the state, instruments which could be used effectively *against* the monopolies. This was shown for example, in the painstaking care taken by the monopoly producers to assure their own management and control of the tremendous wartime plant financed and constructed by the government.

State ownership of productive plant can prove, in proper hands, the most effective weapon for hampering and curbing the monopolies. And the main concern of the latter was that they should have the decisive voice in determining the disposal of the government war plant after the war. In their report on adjustment policies, Bernard M. Baruch and John M. Hancock warned against "government operation of surplus war plants in competition with private industry," while at the same time advising that monopoly should not be favored in the disposal of the government properties.² But it was utopian to expect that the monopolies would not be favored in practice by the disposal of the war plants, especially if government surrendered from the start the main weapon of state ownership. At any rate, both government and big business fully agreed in their opposition to government ownership, the most effective form of state intervention in the economy.

This aspect of government policy, and the motivations behind it, were brought out clearly in the discussion of a proposal by the War and Navy Departments to create single national

monopolies in the fields of aviation and communications, which they considered vital to national defense. The central question involved was the control or disposal of the vast network of air fields and communications facilities established by the American armed services and government agencies throughout the world.

The world-wide system of American-owned airfields certainly exceeded by far the existing network and installations owned by any private monopoly in the world, and in the field of telecommunications, the government-owned facilities probably rivalled the global connections of International Telephone and Telegraph with the other private radio and wire services thrown in. Many of the government-owned installations would remain under military control in such areas as the United States might take over as "strategic bases." But there was a vast war surplus which could be turned to civilian use, and moreover, in fields which are of great value from the viewpoint of facilitating economic and political penetration. The War and Navy Departments proposed to solve this problem by creating a single government-backed American-flag monopoly for world air traffic and another single monopoly in the field of telecommunications by merging all radiotelephone, radiotelegraphy and wire services.

The State Department opposed this plan, not because it objected to effective American utilization of the wartime facilities created throughout the world, but because it thought that this objective could be attained better by other means. As was explained to a Congressional committee by Assistant Secretary of State William L. Clayton, the end sought by American policy in the field of aviation is not primarily to connect the homeland with American territories (as is the case with Britain), "but to carry American passengers and American products under our own flag to all parts of the world." This is as precise a definition of economic policy for the whole field of world trade as can be found anywhere.

But of special interest at this point is the main reason given by Secretary Clayton in opposing the Army-Navy scheme. It is that a single monopoly created under government aegis would eventually mean government ownership. He argued that the

same objective sought by the military agencies could be obtained through the "competitive system", that is, the existing air monopolies, especially since they are not hampered by lack of finances or resources. In the telecommunications field, the Secretary opposed a merger of the services because in this case also a government-sponsored merger would raise the prospect of state ownership.

However, in both cases, the State Department favored unified control of policy at the government level, without direct participation in the financial structure of any of the monopolies. It was held that government co-operation with private firms would be necessary for the purpose of negotiating with foreign governments. Clayton put it this way: "We can retain the benefits of our characteristically American methods and deal effectively with other countries, without adopting their patterns of economic life." He preferred to call the policy suggested in these fields "regulated competition."

This neat and flexible balance between "free" and "regulated" competition was not shared by other branches of the federal administration. While the Army and Navy Departments were for the fullest use of the government power to force mergers and promote monopoly in accordance with an expansionist policy, others went to the opposite extreme in the service of the same policy. Wendell Berge, for example, was opposed not only to "government cartels" but to government control over cartels, because "effective government control over such agreements would require such a degree of interference and surveillance over private industry as to place in great jeopardy our own free enterprise-private property system."

Despite his concern for the "free enterprise-private property" system in the United States, he did not hesitate to advocate inter-government action to eliminate "inefficient and artificially maintained" industries abroad.⁴ In the very nature of things, the proposal to scrap such industries was directed prominently against British industry, which is the outstanding example of comparative technological backwardness. Berge was kind enough to suggest that international credits be arranged to bring about the orderly elimination of backward industries—which can very

easily be interpreted as a proposal to regulate industry throughout the world.

If American trustified "free enterprise" is to have its way in the world it must also obtain command of the essential raw material sources. Most often this lies behind the opposition to "government cartels", by which is sometimes meant almost any kind of government commodity agreement. The British, for example, enjoy a monopoly in a number of raw materials, the sources of which are located in the British Empire and in the Dutch and other dependent empires. Through government-imposed cartels and commodity agreements, the English monopolists cornered materials not found in the United States or in American-dominated zones—like natural rubber, nickel, quinine, industrial diamonds and a good share of the tin supply. As long as these are not replaced by satisfactory synthetic products or substitutes, and as long as the British colonial monopoly is intact, the American industrialists would remain dependent upon the British-dominated cartels.

In the drive for complete self-sufficiency, which has become so characteristic of the American policy, one of the main objectives is to break down such raw material cartels. Here there is a difference of tactic. Some would insist upon the elimination of all government cartels, as a price for American economic aid, and leave the field open for "free competition". Others, in contradiction to the general anti-cartel policy, would rather exploit the American control of important raw materials to force a way into the existing cartels, much in the same way as collective trusteeships are seen as a means of breaking into the old colonial monopolies.

The latter view is upheld in the American government policy on commodity agreements. Main emphasis is placed upon including consuming countries, among them the United States, on an equal basis with the raw-material countries, as opposed to the British policy of restricting such cartel agreements to the raw-material producing countries only. The United States also proposed to conclude agreements on a limited number of materials, the production of which was greatly expanded during the war. At the same time, it pressed for an international

economic organization to supervise all government commodity agreements.' Obviously, the intention is to force a reconsideration of all government-controlled cartels in raw materials.

While basing itself on the "free enterprise" doctrine and emphasizing opposition to trade barriers which restrict American commerce, the government policy was flexible enough to favor agreements of the cartel type in certain fields. Even government-sponsored or initiated cartels were approved when they proved useful in controlling surplus stocks or in obtaining a greater share of raw materials already monopolized by others. Where the requirements of the expansionist program demand government intervention to "unify" policy or break down an existing monopoly, intervention is readily supplied.

Free enterprise, even as a doctrine, is far from being the uniform and unbreached code it is made out to be. It is true that as a whole government intervention in the economy is kept to a minimum, and the gigantic "free enterprise" enjoy unparalleled freedom of action. Intervention is welcomed by them when it serves their purpose, intervention is fought vigorously should it in any way threaten to interfere with the freedom of the trusts.

2. CARTEL-BUSTING

If the British pro-cartel policy is static and retrogressive, in the sense that it seeks to restore prewar relationships, the American anti-cartel drive tends to perpetuate the wartime disruption of the cartel framework and to replace it with a new structure in which the prime position of American monopoly is registered. This underlies the American crusade against cartels.

President Roosevelt's letter to Secretary of State Hull (September 1944) is often cited as the basis of the national anti-cartel policy. Singling out Germany and the Nazi use of the cartels for political ends, the late President defined a general policy, as follows.

The defeat of the Nazi armies will have to be followed by the eradication of the weapons of economic warfare

[cartels] But more than the elimination of the political activities of German cartels will be required. Cartel practices which restrict the free flow of goods in foreign commerce will have to be curbed. With international trade involved this end can be achieved only through collaborative action by the United Nations.

Two main objectives are stated: to eliminate the German cartels as weapons of economic warfare and to curb cartel practices which restrict foreign trade. It is not clear whether the President meant to eliminate the cartel system as a whole, or only to curb those practices which are restrictive, although restriction, control and regulation are the essence of all cartels, as of all capitalist monopoly. In any case, whether interpreted in the broad or narrow sense, the President's letter reflected the basic economic policy for the postwar period: to remove or lessen all barriers and restrictions, governmental or private, tending to interfere with the expansion of American trade and capital investment abroad. It was proposed to do this through "collaborative action with the United Nations."

This policy has the merit of appealing to the traditional trust-busting sentiments of the American middle class, which Roosevelt reflected throughout his Administration, and at the same time meeting the basic requirements of American monopoly capitalism.

Of special significance is the direction in which this policy was developed by the Kilgore Committee. Its report on *Cartels and National Security*, summarizing the findings on the prewar cartel system, proposes the elimination not only of the German cartels but of the cartel system as a whole. It holds that any effort to maintain the international cartel system will help keep the German militarist-monopoly clique in power. Partial steps to curb certain cartel practices or to place cartels under government scrutiny are rejected as insufficient. The cartel system as such is to be "outlawed", and this is to be supplemented by enforcement measures to prevent domestic participation in any kind of international cartel.⁶

In its general approach to the cartel problem, the Kilgore

Committee reflected prevailing opinion in leading big business circles only in the sense that they were opposed to the *prewar* cartel structure. The attitude of the Kilgore Committee towards German industry and the German industrialists, for example, was by no means the settled position of American big business. Nor can it be said that the American monopolists were ready to agree to the elimination of the cartel system as a whole, in perpetuity. In the main, they opposed the restoration of the old cartel structure, now considered especially restrictive because of the greater economic power of the United States. Obviously they would have no objection to using government pressure and a militant anti-cartel doctrine to obtain a much greater share of the world market and open new spheres of penetration. Nor would there be too much objection to forcing recalcitrant fellow-monopolists to stay out of cartels for the time being when this suited the main objectives of the expansionist drive.

That position is adequately expressed in the general "free trade" policy of the government within which the anti-cartel program is developed, as, for example, explained by Assistant Secretary of State Dean Acheson to a Congressional Committee:

Obviously our efforts to mitigate restrictions on production and trade will not be wholly effective if we permit business enterprises by agreements among themselves to impose restrictions on output, to divide markets, and to maintain prices.⁷

Naturally such statements were not entirely to the liking of the magnates of a system which operates on the principle of restricting output, raising prices and dividing markets. But statements hurt nobody, as long as the dominant trusts control the domestic market where they can do as they please, while lecturing their rivals in other countries on the evils of monopoly. These digressions could be risked safely by trustified industries no longer seriously threatened by foreign competition on the home market and eager to expand abroad.

This is expressed clearly by Winthrop W. Aldrich, president of the Chase National Bank of New York and president of the

International Chamber of Commerce, who in summarizing his own position presented in as concise a form as can be found anywhere the foreign economic policy of the government:

The bases for world trade, as I envisage the problem, include the reduction of trade barriers, the elimination of international cartels and of international commodity agreements the development of constructive foreign lending policies and a genuine stabilization of currencies.

With respect to the cartels he presented the position of the highest monopoly circles in the country, interested in both world markets and investment

Both international cartels and commodity agreements are incompatible with private capitalism and the free enterprise system. In their economic effects both are similar to trade barriers in that they either restrict the total volume of foreign trade or divert it from its most economic channels.

Whether cartels and commodity agreements receive fresh impetus in the postwar world will depend largely upon the policy of the United States. I trust that its policy may be one of opposition.

Although there were shades of difference on such questions as commodity agreements and currency stabilization these views may be taken as representing the position of the most highly trusted sector of industry and finance. This sector counted upon obtaining a vast share of world markets and investment by pitting its strength against whatever cartel combination might gather around the British monopolists, and, therefore, also by seeking to prevent such a competitive cartel formation from being created.

In this sense the government anti-cartel policies, reflecting also the traditional middle-class anti-monopoly position, were fully in accordance with the high objectives of big business. The result of these policies, whatever their origin or motivation was

to further the expansionist drive of American monopoly-capitalism. Perhaps the most illuminating example of this coincidence, of this merger of middle-class trust-busting and the expansionism of the trusts, is to be found in a passage from *Cartels: Challenge to a Free World* by Wendell Berge, Assistant Attorney-General of the United States in charge of anti-trust prosecutions. After asserting that it would be to the mutual interest of the United States and Great Britain to take a joint stand against cartels, Berge frankly states the alternative:

There is ample reason to believe that American exposure of secret cartel practices may have its effect on the public policy of other countries and promote common understanding that certain types of activity should be outlawed in other countries as well as here. But irrespective of the extent to which other governments adopt policies similar to ours, there can be no doubt that American business can thrive in competition with foreign cartels if it does not enter into cartel restrictions. If freed of cartel shackles, American enterprise should well be able to expand in world markets and render foreign cartel control ineffective. It is doubtful, indeed, whether any major international cartel can effectively control world markets without the participation and co-operation of the American segments of the industry. There is a real question whether foreign cartels can long survive in many industries if American co-operation is not extended to them.⁹

Here confidence is clearly expressed that the giant American trusts and combines, having at their command vast productive capacities and backed by an over-abundance of financial resources, can compete successfully with any combination of monopolies on the world market and, indeed, force them into submission.

In some cases, however, American industry is not yet sufficiently concentrated or cartelized to cope with cartel competition, and this also is taken into account by Berge. He favors

export association (actually, cartels of American producers) under the Webb-Pomerene Act as a means of "defending American interests in cartelized markets." Such combination, he thinks, is justified to obtain equal footing on world markets. But, he contends, American export associations should be prosecuted under the Sherman Act when they permit themselves to be drawn into a world cartel and participate in the division of markets. The function of the export association is to improve the competitive power of American producers in those industries where powerful enough combinations or corporations do not yet exist. He writes:

If export associations are to be economically useful in the postwar world, approved by public policy and serving the purpose for which they were created, *they must be the spearhead of American industry as it enters into competition with foreign industry for a fair share of world markets*, rather than the tool of international monopolists to draw American industries into restrictive cartel agreements which contain provisions in conflict with the Sherman Act.¹⁰

The main points made by Berge are sustained by Corwin D. Edwards. In his opinion, a unilateral policy by the United States can prevent the consolidation of an international cartel system, since any single powerful producer or group of producers can maintain competition, thus preventing a cartel from stabilizing itself in industries where American exports play an important role. Edwards contends that continued government prosecution of United States participants in cartels can impose the anti-cartel policy upon American business. He points to Department of Justice action in some forty or fifty cartel cases, even under wartime conditions resulting in fines, the putting aside of cartel agreements, the setting up of conditions making the renewal of old arrangements difficult, and in the voluntary modification of foreign policy by some large concerns. Edwards goes so far as to suggest that the United States can force a change in the policies of other governments. He insists that the United States cannot remain complacent in the face of

government or business restrictive policies *anywhere in the world*, and believes that this country must fight such tendencies with the help of whatever allies are available.¹¹

In essence, the government sought to impose a "free trade" policy by bringing pressure to bear on other nations to discard the old cartel structure while simultaneously through anti-trust proceedings forcing American firms to withdraw from the cartels. Britain sought to restore the prewar cartel system, and its government policy was therefore directed towards forcing greater mergers and higher cartelization in British industry. In both cases, government intervened directly, in one country to impose participation in cartels as a uniform and binding policy, in the other to impose withdrawal from the cartels upon all branches of American industry, even the independents. The Americans prefer to call this "free competition" the British "regulated competition." Actually these phrases express in sloganized form the rivalry between British and American monopoly capital in the competitive struggle for redivision of world markets.

The all-out anti-cartel policy was not fully shared by all sectors of big business and in all government circles. These sectors were not too ready to assume that the power of the trusts would be sufficient to break down the old relations in all cases, including some important industries and raw material monopolies especially in instances where other governments backed the cartels. This view was represented, for example, by Milo Perkins a consultant to several business firms on foreign policy and formerly Executive Director of the Board of Economic Warfare. He writes:

American business even at its strongest is relatively helpless against the competition of well-organized foreign business supported by the power of their governments. It's the entry of foreign governments into the picture that makes the difference. For the truth is that our government is the only government in the world that is actively opposed to centralized controls over foreign trade. The pressure

of circumstances will tend to make us accept cartels because other nations accept them

While agreeing that the German-dominated cartel system should be broken up and that the power of the German and Japanese monopolies should be destroyed, Perkins was not willing to dismiss the cartel as an instrument of economic policy. His approach was more cautious, expressing readiness to work both with the cartel system and against it, as circumstances may prescribe. As he saw it, the problem is 'to shape the various forms of both competition and monopoly into useful instruments of our national and international policies'¹²

Those who held this view favored government control over the policies of international cartels through compulsory registration of all cartel arrangements. With differences as to the extent to which cartel arrangements should be disclosed, many big business interests favored the proposal for registration, as a means of establishing a minimum central control by government—a certain 'unification of policy at the highest level' to counteract the cartels sponsored by other governments. Thus, the National Foreign Trade Council, composed of big export and transport interests, urged compulsory registration of cartel pacts in the Department of State, with the provision that Congress clearly define the objective of foreign economic policy to which the cartels should be required to adhere.¹³

No doubt the tendency to seek a common front with the British, as part of a general political orientation directed against the new democracies of Europe and the Soviet Union, also plays an important role here. British monopoly leaders applied consistent pressure to establish this type of cartel co-operation. Reminiscent of the effort made at Duesseldorf in 1938 was a message from the president of the Federation of British Industries to the national convention of the National Foreign Trade Council of the United States in October 1943. The message declared that '(the Federation attaches the greatest importance to a close co-operation between American and British industrial interests in the solution of postwar problems,' and expressed the desire 'to discuss with business interests in the United

States how best the industries of the two countries could co-operate in this common task "14

Conflicts were sharp, but reactionary political compulsions were also strong. Strenuous efforts were made on both sides of the Atlantic to overcome this contradiction. One of the war-time international gatherings of big business (Rye, New York, November 1944), despite a sharp conflict of views, succeeded in adopting a resolution which declared it "essential to preserve the benefits of such [cartel] agreements, and to avoid their use in a manner which is contrary to the public interest of any nation." Leaders of American monopoly also joined with the British in the declaration that "it is vital to economic co-operation between nations, that they reconcile their views and practices in regard to these agreements over as wide an area as possible and establish rules and standards to govern such agreements in international trade "15

A leading "anti-cartelist" of big business, Winthrop W. Aldrich, was one of the leading lights at the Rye conference and one of the most persistent spokesmen for Anglo-American "co-operation" as the key to the solution of peace problems. He vigorously opposed the Bretton Woods project for an international bank and monetary fund, on the chief ground that an Anglo-American settlement must hold priority over any general United Nations agreement. He was one of the first advocates of an American grant to Britain of billions of dollars, in return for which American business was to obtain freer entry into the British sphere. As president of the International Chamber of Commerce, he strove to create a partnership in which the British would play the minor role but which would be directed towards the realization of the world aims of American monopoly capital.

Following the first postwar meeting of the International Chamber, which took place in London shortly after the Labor Party victory, Aldrich explained to his fellow-businessmen in New York that a common agreement with Britain and all parts of the Empire would be of immense advantage "not only to ourselves and to the British Commonwealth of nations, but to all those areas of the world in which private enterprise predominates." According to him, such an agreement was essential

to reconstruct *Western* Europe and particularly to co-ordinate economic policy for Germany along lines energetically advocated by leading British business circles. The problem, as Aldrich explained it, "is not that of restraining resurgent German business but of building up industrial, transport and communication facilities essential to sustain life in Germany and to support the economies of other European countries"¹⁶

While using the anti-cartel policy as an instrument to break into established monopolies, to prevent the consolidation of cartels competing with the American trusts, and to extend the American corporate system, United States monopoly capital at the same time did not close the door to a new cartel system which would serve its expansionist and political aims

A detailed juridical document on cartels prepared by the National Foreign Trade Council illustrates this. A long array of evidence is presented to show that for reasons of "national interest" it would be more advantageous for American firms to participate rather than abstain from cartels which would proceed anyway, even without American membership. It is shown that efforts by the American government to outlaw participation in the cartels would be largely ineffective because of the participation by American capital in combines and joint companies abroad and the establishment of large branch enterprises in other countries which join the cartels as "foreign enterprises." Growth of state intervention in the economy abroad is cited as proof that it would be unrealistic to "reform" or "convert" other nations to the American concept of "free trade." The Soviet Union is mentioned as an example of a nation that "we cannot reasonably expect" to convert. The Council therefore comes to the conclusion that "to continue to operate in the foreign field our private enterprises will need more than ever before the collaboration of government and the right, subject to revocable clearance, to make appropriate international business agreements"¹⁷

Differences exist as to the means to be employed. Some are ready to rely completely, at least for the time being, upon the strength of the powerful American trusts, while others would simultaneously, and some even mainly, use the cartel weapon

backed up by government pressure. The main objective—expansion of the American control of the world economy—is not in dispute. Nor can it be said that any important sector of monopoly in the United States, including even the biggest trusts which rely upon the direct extension of their own corporate combinations rather than the cartels, renounces the cartel except as a pressure move directed against the British dominated system.

Even the National Association of Manufacturers could proclaim in convention at the end of 1944 that 'cartels are contrary to the principle of free enterprise,' and then proceed to direct the main attack against government 'cartels and monopolies.' In the terminology of the free-enterprisers, this applies especially to the foreign-dominated cartels and to any effort of government to direct the domestic economy. However, in the more serious inner literature of NAM, the cartels are handled with due respect. While it is conceded that 'the cartel form may, as the result of numerous pressures, undergo changes in the future,' there is no inclination to reject cartels as such.¹⁸ For NAM actually to reject the cartels would be fantastic, a negation of NAM itself, which dominates the whole trade association structure in the United States.

Other leaders of NAM could afford to render their views more freely. As the defeat of Hitler Germany approached, some free-enterprisers became hysterical and even incoherent at the prospect of a democratic Europe. Dr. Virgil Jordan, President of the National Industrial Conference Board, a NAM offshoot, delivered the following diatribe before a meeting of Massachusetts industrialists:

The European and Asiatic statesmen who are planning and building their postwar world on the ideological foundations of National Socialism, while destroying the Nazi military power with our aid, know better or sooner than the Nazis did that that world cannot live for long half under Socialist serfdom and half under economic freedom. This recognition is no less urgent in the long run for Uncle Joe's [Stalin's] totalitarian autarchy than it is for a nation

under parliamentary government like England, who must live by trade or starve, and who knows that her postwar planned economy, however complete, cannot compete in any free market of the world with the productive power of a free America

In a postwar world of socialist states, the pre-New Deal idea of economic freedom would remain a subversive revolutionary force internationally as well as internally, just as Bolshevism was after the last war¹⁹

3. FREE ACCESS

The phrase most often used to describe the essence of the American foreign economic policy is 'Free access to the raw materials and markets of the world' Implicit in this slogan are all the expansionist freedoms If Britain sought to re-form regional blocs dominated by herself through a system of cartelized and political controls the United States was no less concerned with maintaining regional blocs tied to its own "free trade" program

The Inter-American Conference at Mexico City in February-March 1945 offers important evidence of the techniques and the objectives of the United States The Act of Chapultepec projected an inter-American system immunized from outside political interference The Economic Charter of the Americas sought to establish an economic bloc under the exclusive domination of the United States Introduced by the United States and passed by the Conference with some amendments, the Charter is essentially a statement of American policy, reflecting fully the expansionist program of the monopolies Its aim is to establish the unchallenged primacy of the "free competition"—that is, the monopoly—system in the Americas.

The ten principles enunciated in the Charter can be summed up as follows

- (1) The attainment of higher levels of living through expanding domestic and foreign trade and investment,
- (2) equality of access by all nations to trade, raw materials

and producers' goods, the latter being added on the insistence of the Latin American delegations,

(3) reduction of all barriers to trade, with the qualifying phrase, introduced by the Latin Americans, "in accordance with the purpose of assuring all peoples of the world high levels of living and the sound development of their economies,"

(4) inter-government action to prevent cartel practices which "obstruct international trade, stifle competition, and interfere with the maximum efficiency of production and fair competitive prices to consumers,"

(5) elimination of the "excesses which may result from economic nationalism,"

(6) "The American Republics will undertake to afford ample facilities for the free movement and investment of capital giving equal treatment to national and foreign capital, except [added under Latin American pressure] when the investment of the latter would be contrary to the fundamental principles of public interest,"

(7) support to the Bretton Woods proposals for an International Bank and a world Monetary Fund, and to the Food and Agricultural Organization of the United Nations;

(8) promotion of the system of private enterprise and "to remove as far as possible obstacles which retard or discourage economic growth and development,"

(9) international commodity agreements, including consuming and producing countries, "in exceptional cases of important primary commodities in which burdensome surpluses have developed,"

(10) realization by the workers of the Americas of the objectives of the International Labor Office, as set forth in the Philadelphia Conference

An accompanying resolution on Industrial Development restates these principles and stresses as the most favorable conditions for the development of industry

The desirability that such industries survive without the necessity of permanent, high customs protection, since that would be prejudicial to the legitimate interests of the

consumers When the establishment of new plants in existing industries is involved, the concession of greater protection for the products of such plants will be avoided. In the establishment of industries the American Republics will undertake to stimulate private enterprise, avoiding in so far as possible the competition of governments with private enterprise except [added by the Latin Americans] where it is essential to the public interest.

Also on the insistence of the Latin Americans, a point was added to the industrial resolution favoring the assurance to national capital of "just and adequate participation" in the establishment and management of new industrial enterprises Such industrial investments, according to this amended section, "should not, as a general rule, displace the national capital of existing industries, businesses or economic activities "

As can be seen, the main emphasis in both the Charter and the resolution is upon private enterprise and the non-intervention of governments in the economy Of the ten principles in the Charter, six are devoted to guaranteeing the unhampered rights of private enterprise or the removal of various restrictions on trade and investment In the Preamble to the Charter, economic liberty or freedom of action in the economic field is stressed no less than five times Although toned down here and there by Latin American opposition, the economic documents of Chapultepec embody the four freedoms of expansionism²⁰

The amendments obtained by some Latin American delegations reflect dimly the opposition aroused by this program among Latin American labor and in industrial circles It cannot be otherwise Despite the readiness of some sectors of national capital to co-operate in the investment program on the terms set by big business, it was widely understood that unhampered and unrestricted expansion of the United States corporations in semi-colonial Latin America could have disastrous effects upon economic development and political independence Organizations of national industrialists in Mexico and Cuba were sharply critical of the documents

The opposition of the progressive circles in Latin America

was expressed most clearly and forcibly by Vicente Lombardo Toledano, president of the Latin American Confederation of Labor (C.I.A.L.). With respect to the Charter and the Industrial Resolution as finally amended, he pointed out that they failed to mention any important restrictions upon the investment of foreign capital, "such uncontrolled investments being as they have been, the main factor in Latin America's uneven and backward economic structure." He stated further that it is the position of the Latin American labor movement that

The establishment of legal requisites for such investments should be an essential part of the defense of Latin America's political independence and of the struggles to obtain her economic independence. The Economic Charter, moreover, does not refer at all to the problem of setting prices for those products making up the main trade between semi-colonial Latin America and the industrial nations. This question is of tremendous importance. One of the bases for exploitation of Latin America is the fact that the big monopolies buy Latin American raw materials at very low prices and sell the finished goods abroad at a terrific profit.

The C.I.A.L. also protests against the emphasis of the Economic Charter on so-called private enterprise and non-intervention of the state in national or international economy. Approval of this thesis would mean giving the monopolies the very weapon they need to wipe out medium and small industry and commerce in Latin America and at home.²¹

Thus monopoly expansion abroad, whether of the free trade or the cartel variety, inevitably sets into motion a counter-movement of economic and political defense against it. Depending upon the level of the democratic and progressive movement in each country and the degree to which the Latin American governments actually reflect the needs of national development they have set up many government-type controls aimed at protecting the national patrimony and developing the national

economy. Where these controls and restrictions operate in the direction of assuring greater national independence, they are directed precisely against imperialist penetration within the country and towards restricting the freedom of the foreign monopolies and of capital investment from abroad.

An analysis of investment by United States capitalists in Latin America during the interwar period reveals how these investments have given economic development a one-sided character and impeded industrialization. In 1929, sixty-two per cent of these investments were in the extractive industries (agriculture, mining and petroleum), and 25 per cent in public utilities and transportation, most often in conjunction with the movement of raw materials. *Less than seven per cent was in manufacturing.*²² Foreign capital is devoted almost entirely to the development of the raw materials needed by industry in the United States and other industrialized countries, and operates to establish a monopoly in the source of raw material. All efforts to overcome the semi-colonial economic status must therefore include restrictions and controls over the direction of capital investment as well as protective measures for national capital and industry.

The program of the C.I.A.L. sets forth a number of controls which should be established over foreign capital investment. Spheres of foreign capital investment should be clearly defined with the purpose of preventing foreign control over the basic branches of the national economy. In every undertaking involving foreign capital, domestic capital should participate in a major capacity to avoid the shunting of national capital to secondary or non-productive activities. Foreign capital investment should be channelized in accordance with the national needs, and should be required to reinvest its profits within the country to improve and expand industry. The extent to which the natural resources shall be open to foreign exploitation should be controlled with a view to protecting the national reserves and the national interest. Time limits should be placed upon the concessions granted foreign capital. Transportation rates, state taxes and duties should be stipulated in dealings with foreign capital investors, and collective bargaining contracts

should be obtained guaranteeing just wages and services to labor ²¹

These are among the most important restrictions of a governmental type which are required if the industrialization and modernization of the Latin American countries, with the aid of foreign capital, is to proceed under conditions of full national sovereignty and lead to the most beneficial development of the economies. The "free trade" proposals of the United States, worked out as a fully-fledged program in the Economic Charter of the Americans, threaten the independence not only of the Latin American peoples but of other dependent and semi-dependent countries, wherever the attempt is made to impose them.

IX. An American World Trust?

THE FORM OF THE American crusade varied from country to country and region to region, depending upon the nature of the obstacles encountered. But its character and direction were plain enough. There emerged the outlines of a program for world hegemony, based essentially on the economic expansionism of the monopoly giants and supported by a correspondingly reactionary turn in the sphere of foreign policy.

What are the prospects that such a program can be realized by the American monopolists where the Germans failed? We have seen how an I G Farben magnate dreamt of a German trust reaching from Odessa to Marseilles. The hundred-billion dollar dream goes beyond any single continent to encompass the world. A world trust, no less, is plotted in the board rooms of the big American corporations.

At least that would seem the "logical" culmination of the expansionist program which unfolded after the defeat of the Axis. Can such a program succeed? How does it stand up against the experiences of history and the tests of present reality?

1. WORLD "PLANNING" THROUGH CARTELS

In cartel circles there has been much talk of the "organization" or "co-ordination" of the world economy. This has been stressed particularly in the British discussions, an outstanding example being the World Alliance Plan of Sir Edgar Jones. Even in "free enterprise" United States the view has been advanced in some circles that the cartel structure, under varying degrees of state supervision, and supplemented by inter-govern-

ment commodity agreements offers the main channel for the ordering of world trade and the mitigation of economic conflicts and crises.

A leading spokesman for this view in the United States, Prof. J. Anton de Haas expounds the doctrine in an article called "Economic Peace Through Private Agreements".¹ His main thesis is that economic collaboration between nations can be achieved only by careful planning and a form of control which will co-ordinate the economic activities of private business with the "pattern of world cooperation." A stable world is to be "built upon co-ordinated national economies." This objective he holds cannot be attained through central government agencies, since government control over industry "inevitably tends to promoting supposed national interests" and would therefore lead to seeking national advantage at the expense of economic peace. The only way such national limitation can be avoided, says the professor, is through the cartels, based in the first place upon domestic industrial agreements or internal cartelization.

If the cartel is to escape all national limitations and become a supra-national system, it must be endowed with its own laws and legal precedents. Accordingly, de Haas urges the thorough legalization of the system, a veritable world government unto itself with its own courts including even a world cartel court on the model of the World Court of the League of Nations. In this way the cartel is to become the instrument of "international co-ordination, the channel for organizing a stable world economy freed from the conflicts between national interests." He quotes a European of similar views, Dr. Fleiner Hantos to the effect that the world cartel is the "realization of the principle of a world economy, the realization of the principle of the economic solidarity of nations in the face of national isolationist tendencies."

In sum, what is proposed is the NAM program of "self-regulation of business" on an international scale to which has been added a degree of government supervision sufficient to safeguard strategic industries and provide a legal framework for the world cartel system.

This theory, of course, is of the very essence of reaction. Thus, de Haas envisions the reconstruction of German monopoly capital and its inclusion in the cartel system, which shall then operate to "meet effectively the united front of Russian production." Nevertheless his theory is worth examination, for in one form or another similar ideas about the co-ordination of world economy have developed even in some liberal circles.

Fundamental to the whole theory is the concept, as de Haas himself explains, that the cartel system envisioned by him would have to stabilize production on the basis of co-ordinating the existing productive capacities. Unlimited expansion of production is to be excluded as no longer possible.

In reality this is the law of monopoly, which operates to obstruct the expansion of the economy. Trusts and cartels attempt to overcome the contradiction of the capitalist market by levelling production down to the demand while keeping prices up. Profitable operations call for a stable product sold at fixed prices. The tendency of monopoly, therefore, is to resist any improvement or change in the product which would necessitate costly readjustments in the industry, especially since present large scale industry involves big capital investments and intricate processes. Improvements to lower the cost of production in order to meet competition are avoided as much as possible. In cartel agreements the monopolies therefore attempt to assure maximum profits by adjusting the volume of production to existing capacities and processes, and by maintaining a stable price set high enough to compensate for a lower output. All capitalist monopoly even in a period of economic upswing, acts as an obstacle to expansion. The cartels institutionalize this law on a world scale.

De Haas like other cartel apologists, attempts to turn this vice into a virtue by claiming that the cartel can mitigate crises by limiting production to the needs of the market, thus avoiding a crisis of overproduction. This, of course, is the hope of all cartel participants, and, in the last analysis, of all who hope to overcome the anarchy of the capitalist market through some scheme of cartel-type co-ordination.

To a certain extent, a cartel within this or that branch of

industry can relate production to the needs of the market, but it can do so only for a limited time and only as long as the cartel itself remains stable. But cartels are by nature unstable. They cannot withstand for long any important shift in economic and political relations or a sudden disturbance of the world market. Whatever production and price limitations had been accepted are then set aside, and the competitive struggle between the monopolies again leads to unrestricted production.

Thus the cartels themselves contribute to creating crises of overproduction, for they are unstable, signifying an uneasy truce between competitors, each seeking a golden opportunity to obtain a redistribution of markets more favorable to himself.

Furthermore, the cartels are also victims of crises. The world economic crisis of the early thirties led to a breakdown of practically all international control schemes and to the reshaping of most of the cartels which existed prior to 1930. It is an illusion to think that cartels can become instruments of industrial peace when they are no more than instruments of temporary truce in economic warfare and themselves both the instigators and victims of economic crises. Expressing the conflicts of monopoly capital on a world scale, registering the relation of economic forces at a given moment, representing a temporary peaceful stage in a struggle soon to be resumed, the cartels cannot become the instruments of peaceful economic development.

The general question raised by de Haas and others today was also posed by Karl Kautsky, the leading theoretician of German Social-Democracy during the first World War. At that time, Kautsky held that it was conceivable that "the present imperialist policy be supplanted by a new, ultra-imperialist policy, which will introduce the common exploitation of the world by internationally united finance capital in place of the mutual rivalries of national finance capital." Kautsky was not ready to say that it would be achieved, but he did consider it conceivable and therefore *a practical objective to be worked for as a means of assuring peace*.

In 1916, before the Russian Revolution and the subsequent period of world instability and crisis leading to the second

world war, Lenin gave the Marxist reply in his book, *Imperialism*:

We ask, is it "conceivable," assuming that the capitalist system remains intact—and this is precisely the assumption that Kautsky does make—that such alliances would be more than temporary, that they would eliminate friction, conflicts and struggle in all and every possible form?

This question need only be stated clearly enough to make it impossible for any other reply to be given than that in the negative for there can be *no* other conceivable basis under capitalism for the division of spheres of influence, of interests, of colonies etc. than a calculation of the *strength* of the participants in the division, then general economic, financial, military strength, etc. And the strength of these participants in the division does not change to an equal degree, for under capitalism the development of different undertakings, trusts, branches of industry, or countries cannot be *even*. Half a century ago, Germany was a miserable, insignificant country, as far as its capitalist strength was concerned, compared with the strength of England at that time. Japan was similarly insignificant compared with Russia. Is it "conceivable" that in ten or twenty years' time the relative strength of the imperialist powers will have remained *unchanged*? Absolutely inconceivable.

Therefore in the realities of the capitalist system, and not in the banal philistine fantasies of English poisons, or of the German "Marxist," Kautsky, "inter-imperialist" or "ultra-imperialist" alliances, no matter what form they may assume, whether of one imperialist coalition against another, or of a general alliance embracing *all* the imperialist powers, are *inevitably* nothing more than a "truce" in periods between wars. Peaceful alliances prepare the ground for wars, and in their turn grow out of wars, the one is the condition for the other, giving rise to alternating forms of peaceful and non-peaceful struggle out of *one and the same* basis of imperialist connections and the relations between world economics and world politics.²

This passage is quoted at length because it gives the essence of the matter for now as for the time it was written. Of course the capitalist system did not remain intact, as Kautsky assumed it would. The victory of socialism in a vast area removed a whole sector of the world economy from the orbit of capitalist development. After that event it became impossible even to conceive of a general alliance of all trusts and all imperialist powers covering the whole world unless such an alliance was seen as directed against the Soviet Union, with the object of reincorporating her into the world capitalist economy.

2. WORLD DOMINATION, INC.

If the question is then reduced to the limits of the capitalist world—which are by no means static—the same realities which Lenin analyzed before the advent of socialism still exist and preclude an era of economic peace. But the question can also be put differently, and is being raised in another way by the “free competition” doctrine which prevails in the United States. If the very instability and temporary truce-like character of cartels preclude “industrial ‘peace through private agreements’” is it not possible for the American trusts to organize the capitalist world economy under the domination of a single corporative system?

This is not an abstract question, for actually this was the direction of development indicated by the attempt of German imperialism to conquer the world, and it is being raised again by the attempt of the American monopolies to dominate the capitalist world economy. The latter is attempted under a “progressive” program under anti-cartel and free-trade slogans. But the content of the program is unmistakable. “free access” by American “free enterprise” means domination by giant monopoly reaching into all corners of the capitalist and colonial world.

As compared with the cartels, and the intermediate form of monopoly, the combine, trusts are the most stable form of monopoly combination. The process of greater concentration of

production and centralization of ownership and control—which is characteristic of the “highest stage” of capitalism—is expressed in the tendency for cartels to develop into combines and for the latter to develop into complete amalgamations under a single ownership or control. This is by no means a peaceful process, it took place historically and it proceeds today as the result of conflict and struggle.

The question therefore reduces itself to this. Is it conceivable that with the vast economic power of the American economy to support them, backed by a tremendous military might, a few giant American trusts may be able to extend themselves on a world scale by eliminating or absorbing the weaker non-American monopolies, establishing their control over others, and imposing a corporate system of interlocking ownership and direction throughout the world capitalist economy?

It is possible to conceive of this only as a *direction of development*, but as a development which cannot reach its culmination. Long before the objective can be obtained the development will be turned into its opposite.

It will be turned into its opposite because of the contradictions among the imperialist powers and within world monopoly capital, the anarchy of the capitalist market, the counter-movement of democratic and anti-imperialist forces in the capitalist and colonial countries, and the world role of the Soviet Union.

Obviously new expansionist opportunities for the American trusts arise from the defeat of German and Japanese imperialism and from the weakened positions of Britain, France and the minor imperialist countries. But American imperialism cannot so easily take over the positions formerly held by rival imperialist powers.

This becomes apparent first of all with respect to economic penetration within Germany and Japan proper. As the American monopolies take over greater and greater shares in the German and Japanese combines they increase their vested interest in the maintenance of the monopoly capitalist structure within these countries. The tendency to destroy the competitive potential of these rival imperialisms is overshadowed by the tendency to maintain them as an instrument of American expansion, with

the result that the greater the penetration the more must the American intervention seek to restore and rehabilitate the economic base and the political superstructure of these rival imperialisms. While the objective may be to revive them only as satellites of American imperialism, in practice the restoration rekindles the old imperialist rivalries and contradictions which threaten the American hegemony.

In attempting to "take over" German and Japanese imperialisms one of the main obstacles encountered by the American expansionists is the rivalry of the British imperialists and the satellite powers grouped around them. Britain was greatly weakened by the war, but she did not lose the power of resistance and maneuver against the encroachments of the American colossus. The American expansionist drive serves to sharpen the antagonism between the two leading world imperialist powers in the struggle to take over or control the greater share of the holdings and interests of the defeated powers.

This rivalry is also intensified by the direct pressure of American big business upon Britain and the Empire. In the ambitious program of world domination the objective of subordinating the major imperialist rival holds a leading place. Whatever political gains may be sought by British reaction from an Anglo-American combination—such as staving off basic political changes at home, saving the Empire from complete disintegration or creating a common world front against the Soviet Union—are offset by the danger of becoming a satellite to the more powerful United States.

Among the major contradictions undermining the expansionist drive from within is the intrinsic weakness of the capitalist economy, the cyclical crisis. Particularly characteristic of the American economy is the cycle of rapid expansion and precipitous decline, and due to the leading role of the United States this has the effect of hastening and deepening the world-wide economic crisis. The tendency of the United States to contribute even greater instability to the world capitalist economy increases with every expansion of the American interests abroad, which results in tying other national economies more firmly to the wildly gyrating American economy. While a crisis

intensifies the imperialist drive for new markets and spheres of interest, the resulting expansion abroad also results in sharpening inter-imperialist contradictions in general, while at the same time building up the elements of a new crisis

Even more important from the viewpoint of the counter-imperialist movement are the extensive political repercussions of the American expansionist crusade

Unlike the earlier period of imperialist expansion, the American drive takes place in the midst of a chronic world political crisis and moreover at a stage where the democratic and anti-imperialist forces are more mature and far better organized. In addition it develops at a moment in history when as a result of the global liberation war the basic democratic forces especially in Europe and Asia move to fill in the "vacuum" created by the defeat of German and Japanese imperialists. The question of who shall take over is no longer predominantly an exclusively inter-imperialist matter as was the case in earlier periods

The Soviet Union whose system of socialism operates entirely outside the orbit of monopoly capitalism, plays a powerful role in preventing the restoration of German imperialism and in curbing and counteracting imperialist penetration and influence in both Europe and Asia. Her world political position greatly enhanced by the war the postwar peace policies of the Soviet Union encourage the democratic and colonial liberation movements the world over. Hand in hand with her anti-fascist and world security policies the USSR also seeks to develop greater economic co-operation especially with her neighbors. This helps to sustain the independent measures taken by the new regimes to reconstruct and develop their economies along the lines of democratic state capitalism

The democratic movement greatly intensified by the war in Europe and Asia is now a chief contender for positions formerly held by the defeated and weakened imperialisms. It tends to prevent the free operation of monopoly capital in hitherto subjugated regions. New sectors of the world economy are in process of being withdrawn from the exclusive orbit of imperialism as a result of the democratic upsurge. The anti-fascist

movement in liberated Europe and the colonial liberation movement especially in Asia set up new political barriers to imperialist and monopoly-capitalist penetration. The American crusaders may circumvent these barriers, sometimes by peaceful methods of concession and adaptation and at other times by direct intervention, but their expansionist activities are obstructed increasingly by democratic forces moving in the direction of eliminating the intervention of the trusts and of imperialism entirely.

Furthermore, one of the effects of the expansionist drive is to set into motion new anti-imperialist sectors in the colonial world—in Latin America as well as Asia in Africa as well as the Middle East—and to arouse also the opposition of the people within the capitalist countries. Coupled with economic expansion is the tendency towards a political alliance between the United States and the most backward and reactionary forces in the world. If for example, the imperialist structure is to be maintained in Germany and Japan then the support must be sought of the neo-fascist and reactionary forces within these countries against the popular democratic tendencies. If the main objective of American policy in China is to assure dominant influence for the United States and unhampered opportunities for economic penetration, then an alliance must be formed with the feudal reactionary forces grouped in the highest circles of the Kuomintang. And if in Latin America the main aim is to assure complete hegemony for North American finance capital, then politically the United States must seek to bolster the feudal and reactionary forces which stand opposed to industrialization, the agrarian reform and democratic development. If in Southeast Asia the chief aim of American policy is to obtain the larger share of control over resources and the market, then the United States must seek to maintain colonialism, even if this means saving the British, French and Dutch empires. An immediate outcome of all this is to set the anti-fascist and liberation movements, which are engaged in fighting these very elements, against the United States as well.

The expansionist drive thus results in sharpening the world political crisis, in some instances of inciting civil war, and in

general in aggravating all elements of instability within the capitalist and colonial sectors of the world. This in turn reacts upon the internal stability of the United States itself, for these developments hinder and delay the postwar stabilization, lessen whatever opportunities may exist for the recovery of the world market and increase the dangers arising from a disastrous economic crisis.

Not least among the political repercussions of the American expansionist drive are the political difficulties created within the United States and throughout the world by the break which such a drive entails with the program of postwar co-operation with the Soviet Union and other wartime allies. The turn by the United States towards an imperialist policy of expansion immediately following the defeat of the Axis undermined the basis for peace and raised the danger of another world war. The opposition among the American people to policies which encourage fascist forces the world over and threaten the hard-won peace in itself becomes an important obstacle to the expansionist program.

Despite all the inner weaknesses and contradictions of the American expansionist drive it would be the height of folly to underestimate the power behind it or its dangers. It cannot be fought properly unless the direction of development is seen clearly. The expansionist crusade does not proceed on a straight and uninterrupted line; contradictions and powerful opposing currents may force a period of relative peace. But such a period must be seen as a breathing-space to be exploited fully by the labor and democratic forces to strengthen their positions at home. Without the increasing intervention of these forces government policy in the domestic as in the foreign field will continue to serve the interests of the expansionist program.

3. "PROGRESSIVE" IMPERIALISM

Sometimes the by-products of corporate and monopoly expansion abroad are mistaken for the content with the result that American monopoly-capitalism or imperialism is characterized

as more "progressive" than the British. Certainly, important variations exist, but these can hardly be classified as more or less progressive. Both American and British imperialism are reactionary "progressive imperialism" being a contradiction in terms.

To the extent that imperialist economic penetration leads to drawing all peoples even the most economically backward, into the world market to the development of capitalist enterprises in the semi-feudal or colonial areas, it can be said that imperialism gives rise to certain historically progressive tendencies. These consist in the emergence of a modern proletariat, in the weakening of the precapitalist or feudal system of production, and the growth of capitalist forms of production.

Just as the great concentration of production under the control of the monopolies has resulted in the socialization of production and a more highly integrated industrial working class, in themselves historically progressive developments, the expansion of monopoly capital into the backward areas of the world has also produced progressive by-products. But these consequences of the development and expansion of monopoly capitalism are progressive precisely because they stand in contradiction to both the preceding form of pre-capitalist society and to the monopolies themselves. They are progressive because they represent the opposite of imperialism and monopoly capitalism, because they constitute the forces within the capitalist world sector which will turn imperialism into its opposite.

The concomitant should therefore not be confused with the content of imperialist expansion. The aim of imperialist expansion, whether it be of the British or American variety, is to extend the domination of monopoly capital. Its political content is reaction.

Variations which do exist as between various imperialisms, arising from their historic development, the status of the inner class and political relations, and the specific features of their world positions, are not a matter of indifference. Contradictions among them arising from their uneven development and the specific features of their formation, particularly in the presence of a socialist world sector, can be effectively exploited in the

interests of peace and progress. At periods in their development, some imperialist powers are more aggressive and rapacious than others—witness the role of Germany and Japan in World War II.

As between British and American imperialist expansion there are a number of important distinctions of methods and style. Britain leans heavily upon her colonial monopoly established over a long period when British capitalism enjoyed industrial and financial world supremacy. This vast colonial empire served as the foundation of Britain's share of the markets and raw materials of the world and for further economic and political expansion into minor empires, semi-colonial countries and within larger capitalist countries. Britain's world position is based so largely upon the maintenance of the Empire, particularly the colonies, that it developed especially repressive policies against the colonial peoples.

By the time the United States entered the world arena as a fully independent and highly developed capitalist country, other and older imperialist powers had already taken the major share of available colonies. Up to the end of the nineteenth century, American capitalism was still primarily engaged in its own internal development, in ridding itself of financial dependence upon British capital and in overcoming foreign competition within the home market. By that time it already had developed great internal resources and the richest market in the world. As it turned to expansion outward, American imperialism found that the choicest colonial morsels and spheres of influence had already been monopolized. However, there was something still to be had, and during the early phases of expansion the United States acquired a small colonial empire by methods similar to those of other imperialist powers.

Primarily because of the wealth of resources at home, a modern industrial machine and the comparative richness of the domestic market, American monopoly-capital during the first part of the twentieth century did not find it of prime importance to press for a redivision of colonies and the creation of its own colonial empire. While not discarding the more direct methods of colonial repression when necessary, the American

imperialists utilized primarily the more indirect methods of economic and political penetration into existing colonial empires and spheres of influence. Within its own well-established sphere in Latin America, repressive measures including armed intervention were employed to assure the American hegemony. But as a whole, after the first colonial seizures, direct territorial expansion played a distinctly minor role in American imperialist expansion. Particularly as American economic supremacy became well established after World War I, expansion took the form primarily of economic penetration, accompanied by alliances with the reactionary-feudal forces in the semi-dependent countries (as in Latin America and in China). In terms of foreign policy this was expressed in the "open door" and "free access" doctrines, and also in the anti-colonialism slant of official propaganda notwithstanding the colonial repression of Puerto Rico and the Philippines.

As to the practical effects of American economic penetration upon the countries subjected to it, there was little to distinguish it from all other imperialist penetration. Whether in a colony like Puerto Rico and the Philippines or in semi-dependent areas like Latin America, United States penetration resulted in monopolizing raw materials, retarding industrial and democratic development, and sustaining the most backward economic and political forces. On this score there are no basic differences between British and American expansion.

Besides the colonial distinction, another important difference can be found in the development of the two major imperialist powers. This was analyzed by Lenin during the first World War. Pointing to the growth of rentier or usurer states living largely on the proceeds of dividends and capital exports, and to the rise of a class of wealthy coupon-clippers, Lenin defined imperialism as "parasitic or decaying capitalism." However, he pointed out that the general tendency to decay does not preclude the possibility of a rapid growth of capitalism in some countries and branches of industry, while in others the tendency to decay is more pronounced. At the time he wrote this he found that as a whole, capitalism was growing far more rapidly than before. "But this growth," he wrote, "is not only becoming

more and more uneven in general, its unevenness also manifests itself, in particular, in the decay of the countries which are richest in capital (such as England) ”¹

As we have seen, the tendency to decay in Britain grew more pronounced between the two wars. Parasitic dependence upon the Empire accounts to a large extent for the relative backwardness of the British economy. It is not precluded that energetic measures of nationalization—not of the pseudo kind projected by the British Labor government when it came into office, but of a more basic anti-monopoly character which would really be significant steps to socialism—may halt the process of decline even before the advent of socialism in England. But the internal decay is still particularly characteristic of Britain.

Up to and during World War II the American economy still displayed a tendency to expand, and to maintain superiority over all other countries not only in volume of production but also in the efficiency of industry. This does not mean that the simultaneous process of parasitism and decay was not also strongly felt in the American economy. It became more pronounced with the increasing dominance of monopoly and with economic expansion abroad following World War I. Nevertheless, American imperialism retained a capacity for vigorous expansion and an area for maneuver at home and abroad which exceeded that of any other imperialist power.

It is primarily these two distinctions—in the field of colonialism and in relative economic virility—that endowed American imperialism with certain pretenses of a progressive or democratic character as it penetrated into competing spheres of influence and into existing empires. Having established their own sphere over a greater portion of Latin America, the American imperialists pressed for “free access” into other spheres and into the colonies, claiming that they were opposed to all spheres of influence and all colonialism, whereas their real objection is that they stand opposed to the exclusiveness of the British Empire and only to those spheres from which they are excluded. Relying upon the great competitive advantage of their efficient and vast productive machine, and the great capital accumulation stored up during World War I and the following period,

the American expansionists adopted the doctrine of free competition and free trade (although still maintaining their own high tariffs), claiming that all they asked of their competitors was the opportunity to compete with them on an equal basis anywhere in the world.

Certain wartime developments helped build up a progressive facade for American imperialism. Because the United States was engaged in an essentially defensive war, which merged into the global war of liberation against the fascist Axis, even some of the most ardent anti-fascist forces in America tended to overlook entirely the specific imperialist aims which were simultaneously seeking satisfaction. The war patriotism of the anti-fascists tended to merge with the war patriotism of the profiteers, the enthusiasm of the people for a just cause with the enthusiasm of the imperialists for the new expansionist possibilities arising from the defeat of Germany and Japan. The great popularity of President Roosevelt in labor and progressive circles—due to his domestic New Deal program, the anti-Munichite direction of his prewar foreign policies and his wartime role as a Coalition leader—tended to obscure the function of the Great Freedoms as a cloak for an essentially expansionist program. All this contributed to generating the atmosphere of liberalism which clings to all American foreign undertakings.

Aside from these moral and political factors, events during the prewar political crisis and the war itself favored the spirit of compromise, concession and adaptation which was characteristic of President Roosevelt's policies. The Good Neighbor policy towards Latin America, the turn towards co-operation with the Soviet Union, the emphasis generally upon peaceful and indirect methods of economic penetration rather than aggressive measures, arose from a number of related factors. Perhaps the most important were the many complications created for the United States by the rapid rise of Germany and Japan and by their world-wide aggressive policies at a time when the United States had not yet recovered fully from the economic crisis of the thirties and was not prepared in a military sense to cope with these powers. The rise of a militant

labor movement at home as a result of the economic crisis, the higher level of anti-imperialist resistance in Latin America and in the colonial world generally, and the success of socialism in the Soviet Union, which had become a world power, were additional inducements to compromise at a time when the American internal and world position was difficult. As previously indicated, it was not until World War II and as an aftermath of that war that the United States had developed fully all the elements of the prime world power.

The crisis of a global war also created certain necessities, from the viewpoint of military mobilization. American lend-lease supplies were not only of aid to the Soviet and Allied war effort, but also served to aid industrialization in some colonial and semi-dependent countries, as in Australia and Brazil, and to some extent even in India. While the over-all effect of the mobilization of materials and resources in Latin America was to accentuate the dependence of the economies upon the extractive industries and to tie these countries more closely to the economy of the United States, certain important concessions were made to national development under the pressure of war necessity. The establishment of some metal plants in Mexico and of the large steel combine in Brazil as joint ventures of national and North American capital, was a significant although only exceptional departure from the traditional imperialist policy. Likewise, government loans extended to a number of Latin American countries for purposes of development were somewhat freer from the accustomed restrictions and reservations. These and other departures from the usual imperialist practices were occasioned by the war crisis, and were temporary concessions which did not alter the basic policies of economic expansion, as became clear at the Inter-American Conference in Mexico City towards the end of the war.

Of a piece with these developments were the enlightened programs for industrialization of the semi-dependent countries that were prepared by the government. In the expansionist drive which proceeded even during the war, these programs became effective propaganda instruments against the older and hard-pressed imperialist powers. Themselves unable to renovate

their own industries at home the British dared not pledge too much to India for example while the American expansionists could afford to establish new branch plants in that country and discuss with leading Indian industrialists their 15-year plan of development

Industrial planning for other countries became quite the custom. The Co-ordinator of Latin-American Affairs prepared a detailed report showing that within the first ten-year period after the war Latin America would "need" machinery and equipment totalling \$9.8 billion more than half of which would be supplied by the United States. This estimate was based on a careful calculation of what could profitably be invested by North American capital plus the amount that could be mustered by Latin American capitalists. But nothing was said on how this was to be financed and on what terms nor was advice forthcoming on how the resistance of the American trusts and native feudal interests was to be overcome to industrialization on a scale indicated by this estimate.⁴

An even more ambitious plan was drawn up by the Foreign Economic Administration for the industrialization of China. The details of this plan filled no less than ten volumes. It proposed an expenditure of almost two billion dollars in five years for the purpose of laying a base for all-round industrialization. The schedule provides, province by province for the establishment of power projects, some steel mills, metallurgical plants and manufacturing, chemical and food-processing enterprises, as well as for the development of the transportation system. It is an entirely technical study without publicized provisions for financing and control, and received the endorsement of the Chiang Kai-shek regime at Chungking.⁵

How this scheme is to be reconciled with an interventionist policy directed against the Chinese liberation movement and with the simultaneous policy of taking over or controlling the Japanese monopoly network in East Asia did not seem to concern the planners in FEA. Whatever their intentions, it was apparent that the plan had only the remotest chance of realization, and then only in a completely distorted form and as part of a more ambitious program for establishing an American base

in China for economic and political penetration of the Far East. Measures of industrialization in a colonial area by an imperialist power are not to be excluded in all cases, as shown by the industrial development of Manchuria as a war base by the Japanese

These techniques and methods of American expansionism, employed on an even wider scale during the war, helped to give a democratic coating to the program, and were adapted to the growing resistance within the colonial world to the older and more familiar programs of economic penetration. During a period of general upsurge in the colonial world, such as began after Japan's defeat, these very tactics and slogans may prove many times more effective than Tory politics, by disarming the democratic movements with illusions about the enlightened character of American "democratic" capitalism.

It may be argued that the drive of American monopoly capital to take over world positions of rival imperialist powers is "progressive" because it tends to displace older and more reactionary imperialisms. This argument should be examined in relation to the cartel system and colonialism, both being cases where the American program appears liberal and progressive in relation to the British.

On the face, it would appear that the American emphasis upon breaking up the cartel system, an emphasis which corresponds with the aim of the trusts to enlarge their share of the world market, can contribute most effectively to the disintegration of German monopoly capital. On the other hand, the British emphasis upon restoration and expansion of the cartel system, including the German cartels, works in the opposite direction. Yet the American monopolists can prove even more effective than the British in restoring the base of German imperialism. For while attempting to prevent the resumption of the prewar cartel system, as a means of delimiting British participation in the German economy, they seek to extend their own direct corporate interests in German industry along lines already well established before World War II. Because of the great resources at their disposal, the American monopolists may

be more successful in their chosen method than the British cartel magnates in theirs

Indeed, who would venture to say which is more "progressive"—a new corporate system in Western Europe dominated by the American trusts, an Anglo-French-German cartel system including American participation largely through the German trusts, or an Anglo-American-German cartel structure dominated by the United States monopolists? Yet these are the only alternatives, theoretically speaking, if the matter is left only to the finance capitalists, that is, without the intervention of democratic forces

American economic penetration in the British and other empires, already an important trend before World War II and now proceeding at a greater tempo, in itself provides nothing of a progressive character. It can be exploited effectively for independence by a national liberation movement which knows how to take advantage of the weakening of the old imperial power and the pressure of a vigorous imperialist competitor. The rivalry between Britain and the United States can thus be exploited to wrest greater concessions from the colonial power. In that sense only, and not in the sense of "liberator," can American economic penetration into the old colonial spheres be considered as an aid in breaking up the colonial monopolies providing that the liberation movement is at the same time strong enough to maintain its independence of all imperialisms.

In addition, and this is most important, it should not be assumed that hand in hand with economic expansion territorial acquisition will not come to play a more important role in American policy. Economic penetration into all corners of the capitalist and colonial world, not only to the extent that it actually unfolds but also as an aspiration and a program, engenders a parallel drive for strategic advantages, in the form of bases and other territorial acquisitions. Positions gained in war—whether they be colonial and mandated territories won in combat, strategically located air and naval bases, or other wartime installations which can be turned to commercial and political uses—will not be surrendered readily, or without some compensation

By the time the war was over this already came to play a big role in American policy, as shown by the long-term lease of bases in the British West Indies, Newfoundland and elsewhere; by negotiations to retain bases in many parts of Latin America, in Africa and the Middle East, and by the unmistakable intention of the United States to retain under its control islands won from the Japanese in the Pacific as part of a vast trans-Pacific network, including also special rights and bases in the British, French and Dutch possessions, as well as in Formosa, Korea and elsewhere on the Asiatic mainland.

Policies established in a previous period tend to persist even when the conditions which gave rise to them are no longer so pertinent. Thus many features of the Roosevelt policy found an echo in the postwar programs. But as the United States assumes its new position as the dominant imperialist power, and as she becomes more active in this role, important changes in policy are to be expected. At the end of the war, a new tendency in the American attitude towards colonialism appeared. The proposal for collective trusteeships, which had been advanced by Roosevelt and others supporting his orientation as a means of forcing the break-up of the old colonial structures, was already giving way to an opposite tendency. In the face of the colonial revolts which followed the defeat of Japan, the United States threw its support to the efforts of the British and the other colonial powers to retain the structure, how successfully still remained to be seen.

When the Soviet Union made clear its intention of sharing in colonial trusteeships established under the United Nations Organization, even to the extent of taking sole responsibility for specific colonies, the American government immediately cooled to the trusteeship provision. Instead there began to develop a marked tendency in American policy towards accepting the British proposal for joint and exclusive Anglo-American supervision of certain portions of empire. In line with the program of taking Britain in as a junior partner in the new phase of American imperialist expansion, it is not to be excluded that the United States will appear side by side with

Britain as the ruler of the colonial world—that is, if the colonial world lets itself be ruled

The expansionists hope to exploit the powerful creditor position of the United States. Loans are a flexible weapon, especially in a world exhausted and weakened by a great war. And the United States showed every disposition to utilize its great lending power as a means of exacting political and economic concessions from the borrower. Previous experience with the Soviet Union, during the period following the revolution and the civil wars, made it clear that nothing of importance could be expected in the way of basic political concessions from the USSR in return for a loan. On the contrary, it was made quite clear after World War II that an American loan to the Soviet Union would be of equal benefit to the United States in providing a large and certain market for the products of its overgrown industries.

While a slight tendency existed in some business circles to favor a government loan to the USSR, simultaneously an imperialist loan policy developed towards the countries of liberated Europe and towards Britain. With respect to the countries of Eastern Europe the withholding of recognition pending political changes suitable to the American interests hid the threat of a complete economic boycott. With respect to Britain, the great American lending power was used as a major weapon to force greater economic concessions to the American monopoly interests within the British sphere. Above all, there was the danger that the imperialist lending policy would place the great resources of the United States at the disposal of a world-wide anti-Soviet bloc, based on an Anglo-American combination.

Among the countries which suffered most from the Axis aggression and in the relatively backward semi-dependent nations there is great need for economic aid, which the United States alone of all the great powers can supply in abundance. But the democratic flavoring of the American economic policy, with its insistence on free enterprise and the removal of trade and other barriers which restrict the freedom of the expansionists, does not blind the liberation governments of Europe or the semi-dependent nations to the real content of the policy.

That is why they are so insistent upon maintaining restrictions, barriers and government controls of the kind which will safeguard their national economies, domestic resources and political sovereignty from domination by foreign monopoly-capitalist groups and countries

They would like to avoid as much as possible the gigantic sacrifices involved in attempting reconstruction and development entirely with their own resources, and therefore they seek the technical, economic and financial aid which the United States can offer. But they would be doing their own people a disservice and set the democratic movement back if they did not insist upon the terms and conditions for this aid which would permit them to retain full control of the nation and all foreign economic activity within it. History has shown that social progress can best be assured by newer democratic nations when they base their development firmly upon control of their resources and industries and upon arousing to the full the creative endeavor of their peoples. The basic social reforms carried out by the new democratic regimes of liberated Europe, such as the breaking up of the large landed estates and the nationalization of industry in a democratic manner, create new strength and new possibilities for development. This, together with the economic co-operation of the Soviet Union, serves to sustain the new democracies, and to leave them less dependent upon American loans.

This is the reverse side of the four expansionist freedoms, of industrialization based on trustified "free enterprise," of foreign economic penetration detrimental to the independence and freedom of the liberated lands. It must be seen as clearly by the American people as it is seen by the democratic and anti-imperialist forces abroad, if the American worker and anti-fascist is not to become an unwitting participant and supporter of the expansionist program.

The attempt to extend the American corporate system throughout the world has nothing progressive about it. Actually, this development cannot proceed for long without sharpening the inter-imperialist conflict, without engendering a corresponding reactionary policy at home, and without arousing

tremendous forces of opposition within the country and abroad. The theoretical conception that this direction of development can culminate in a vast world corporation is a dangerous illusion. Its impossibility is written in the ruins of Hitler Germany, which employed other techniques and slogans but which sought the same goal

X. The Soviet Union

SOCIALISM IS THE complete negation of monopoly capitalism. The Socialist Revolution of 1917 in Russia removed a vast and potentially rich sector of the world economy from the orbit of capitalist development.

In many respects the Russian Empire was among the most backward states in the world. Powerful remnants of feudalism persisted in the economic and political structure, although by the time of the revolution capitalism had made considerable headway. In agriculture, following the abolition of serfdom, capitalist farms were on the increase, while in industry and finance a number of large-scale capitalist enterprises were functioning. Moreover, Russia had become an important field of investment and economic penetration for British, French and German capital.

The establishment of Soviet power, which expropriated the means of production in industry, took over the banking system, nationalized the land, ended landlord-capitalist domination and closed the door to monopoly-capitalist penetration from the outside.

Socialism is more than a negation of monopoly capitalism. It is a system of economy and of the state, having its own inner relations and laws of development, completely differentiated from the economy and the state under capitalism. Social property in the means of production is the basis of the Soviet system, as contrasted with private property in the means of production which is the basis of the capitalist system. The consolidation of the Soviet system led to the victory of social property in all branches of the economy, resulting in the liquidation of exploiting classes and the abolition of exploitation. For the first time in history a new relation of classes was established.

Soviet society consists of only two basic classes, the working class and the collective farmers, in non-antagonistic and friendly relation to each other

The phenomenal development of the Soviet Union established a distinctive, socialist sector of the world economy, within which the remnants of capitalism have been eliminated. The extraordinary stability, resilience and monolithic unity of the Soviet system were demonstrated in the supreme test of global war. During peacetime also this system proved capable of eliminating economic crises, unemployment and national oppression, while showing its capacity for unparalleled economic, social and cultural growth.

Defeat of the German aggression confirmed the durability and permanence of socialism as an established and powerful world sector. Furthermore, it strengthened the Soviet state and greatly enhanced its world influence. These are the greatest factors operating to delimit and restrict the operations of monopoly capitalism and the cartel system on a world scale.

Of decisive importance from the viewpoint of world development and the maintenance of peace are the perspectives for the further growth of the socialist economy. Some unrealistic people still try to explain the Soviet victory over Germany by what they profess was a retreat from socialism back towards capitalism in the Soviet Union before and during the war. Still others profess to see as the most "hopeful" outcome of the war, arising from the supposed weakening of the Soviet structure during the war and from the "insuperable" problems of reconstruction, a tendency towards the relaxation of Socialism and a turn back—towards capitalism in the postwar period.

Actually, despite serious war damage and destruction, the socialist system and the Soviet state emerged from the war greatly strengthened. It stood ready to resume peacetime development, at an even faster pace than before the war.

1. FROM SOCIALISM TO COMMUNISM

Before the Nazi aggression the perspective emphasized by Soviet planning was the transition from socialism to communism,

the higher stage of socialist society. The Third Five-Year Plan, beginning in 1938 and interrupted by the war, had as its objective to prepare for such a transition from the existing state of affairs whereby each person was paid in accordance with the work performed to the higher stage of socialism, or communism where each would be paid in accordance with his needs. "From each according to his ability, to each according to his labor," is the general formula of socialism. "From each according to his ability, to each according to his needs," is the rule of communism.

Such a transition requires an abundance of products, great enough to satisfy the needs of the people at an ever-rising standard of living. Needs are relative, depending upon many factors of culture, custom, taste and economic development which go to make up the standard of living. But there are minimum needs for comfortable and meaningful living, themselves growing as the general standards of society rise—like comfortable housing, healthful and balanced diets, sufficient clothing, higher education, and recreation.

In a socialist society, where higher production can be translated immediately and directly into a higher standard of living, the level of production determines basically the extent to which the needs of the population can be met. Exploiting classes having been completely eliminated, appropriation of the products of labor is social. Both production and distribution are planned. The problem of the market, as we have it in capitalist society, does not exist. The problem is not how to dispose of products on a market. The problem is how to produce enough to satisfy the needs of the people.

For the Soviet Union this is the problem of obtaining maximum socialist production. On the eve of the war, the Soviet Union was already one of the leading industrial countries in the world, in the short space of two and one-half Five-Year Plans having overcome the enormous historic lag which the Soviet state had inherited from tsardom. At the end of the Second Five-Year Plan in 1937, industry had expanded nine-fold as compared with the level of 1913, which also was more or less the level of production reached in 1927, when the period of

reconstruction after the war and revolution came to an end. During this 14-year period, industry in the leading capitalist countries stood only some 20 or 30 per cent over the 1913 level. As a result, at the end of the Second Five-Year Plan the gross volume of production in the Soviet Union was greater than in Britain or in Germany, and second only to the United States.

Furthermore, the meteoric rise of Soviet industry had taken place together with the victory of socialist production in industry and agriculture, eliminating the last vestiges of capitalism from the country and overcoming the technical backwardness of the economy. In a summary of what had been accomplished during the first two Five-Year Plans,¹ Stalin considered that the most important result in the economic sphere was the complete reconstruction of industry and agriculture on the basis of a new and modern technique. For example, 80 per cent of the total output of industry in 1937 was produced by units built or entirely reconstructed during the previous ten years. No other country in the world could claim as high a level of up-to-date technique in industry, so complete a renovation of its industrial structure with modern machinery. Likewise, Soviet agriculture already operated on the largest and most mechanized scale in the world, and was more fully equipped with modern machinery than the agriculture of any other country.

This was done by socialized industry, only three-tenths of one per cent of the industrial output in 1938 being accounted for by privately owned enterprise. And in agriculture, during the period of the Second Five-Year Plan, the collective farms were consolidated, representing over 93 per cent of all peasant households in 1938. Capitalist exploitation had been completely eliminated and the entire economy socialized.

Despite the growing defense needs which had to be supplied by the socialist economy, the rapid rise of production led to a corresponding improvement in the standard of living. Between 1933 and 1938 industrial production more than doubled. During the same period, the national income rose more than two-fold, the total annual payroll of workers and other employees increased three-fold, the total monetary income of the

collective farms almost tripled, and the state expenditures for social and cultural services were increased six times.²

Why, then, was the Soviet Union not yet ready to enter into the transition to communism? Notwithstanding the great tempo of development and of modernization of technique, in which the Soviet Union exceeded any other country, the Soviet economy still lagged far behind other leading countries in production per capita. The population of the USSR is much greater than that of the United States, is more than twice that of Germany, and is about four times as great as the population of either England or France. A much higher volume of production would be necessary to supply the Soviet population in accordance with the needs of communism. The transition to communism could be approached only through greater production per capita, sufficient to supply each person with his needs under conditions of a rising standard of living.

Accordingly, the objective was raised to overtake and surpass the most advanced capitalist countries, including the United States, in the per capita output of basic products. At the beginning of 1939, Stalin set the task of outstripping the chief capitalist countries economically within the next ten or fifteen years.³

In essence, this involves a competition of social systems, in which socialism is called upon to demonstrate its superiority as a system, in terms of its capacity to produce, the efficiency of its economy and the productivity of labor. Lenin had said that "labor productivity, in the last analysis, is the most important thing, the chief thing for the victory of the new social order." Now, the leaders of the Soviet state set the goal, as Stalin put it, to show that socialism was superior "because it can give society more products and can make society richer than the capitalist system of economy can."

The competition for economic primacy was set in the following framework by Molotov in his report on the Third Five-Year Plan:

On suitable occasions we did collaborate with bourgeois countries, and think it quite expedient to do so. Nor have

we any intention of refusing to do so in the future, but shall strive to extend this collaboration with our neighbors and with all other states as much as possible. However, we are going our way, and capitalism is going its way. History confronts the USSR not only with the question of collaborating with the capitalist countries but also with the question of a competition between the two economic systems—the new and the old, between the USSR and the principal capitalist countries—for primacy in the economic field.⁴

As already pointed out, competition for 'primacy in the economic field' did not mean competition in the capitalist sense—for spheres of exploitation and markets. It meant competing in terms of higher production, greater efficiency, higher standards of living and greater abundance.

What this entails is shown by comparing the relative per capita output of a number of basic branches of industrial production, the maximum expansion of which determines the productive capacity of the economy as a whole. At the end of the Second Five-Year Plan (1937), per capita output of electric power in the United States was five times greater than in the Soviet Union, pig iron, three and one half times greater, steel three and one half times, coal four and one half times, and cement five times as great.^{*} A similar situation prevailed in the field of consumers' goods.^{*} In order to overtake and surpass Great Britain in the per capita production of pig iron, which may be considered the base of all heavy industry, Soviet production, in 1938 already more than double that of Great Britain, would have to increase from the 1938 tonnage of 15 million to 25 million. To outstrip prewar Germany the Soviet annual output would have to reach 40 or 45 million tons and to exceed the United States at its 1929 peak, Soviet production would have to be increased almost fourfold over its 1938 level.

The Third Five-Year Plan, which would have been completed in 1942 if the war had not intervened, did not yet set the

^{*} In cotton fabrics, for example, U.S. per capita output was four times greater than in the Soviet Union, in woollens, five times, leather footwear, two and one-half times, paper, over nine times, soap, four times.

goal of overcoming this lag entirely. However, the Plan was seen as an important step in that direction, as marking the entry of the Soviet Union 'in the arena of the international competition for economic primacy between the USSR and the capitalist countries'.⁶ According to the Plan, per capita pig iron production by 1942 was to be almost on a par with that of Great Britain. And in the field of electric power, the Soviet Union would have outstripped France and reached slightly over one third of the level in the United States.

Further industrialization of the USSR at a rapid tempo on top of the great achievements of the earlier plans, was provided in the Third Plan. According to its schedule the national income was to increase by 80 per cent, which would amount to more than the increases under all previous Five Year Plans put together. Industrial output was to rise by 88 per cent, allowing for high rates of increase in the consumer goods industries while at the same time providing for an even faster rate in heavy industry. The new establishments to be set up under the Plan were to comprise a greater productive capacity than those of the two previous Plans combined. In view of the threatening world situation concentration of the new industry in the older industrial centers of the west was to be avoided and the Far Eastern and interior regions were singled out for special attention.

Estimating the significance of the Third Five-Year Plan in March 1939 Molotov declared:

The Third Five Year Plan differs substantially from the First and Second Five Year Plans. At that time the purpose was to lay the foundation of socialist society. Now socialist society has, in the main, been built. The Soviet Union has entered a new phase, the phase of the completion of the building of classless, socialist society and of gradual transition from socialism to communism. That is the chief difference between the present and the earlier period.⁷

In his report on the new perspectives Stalin had said that the Soviet Union possessed all the prerequisites for outstripping the

capitalist countries, but that time was needed, some ten or fifteen years. Five months before Hitler attacked, a 15-Year Plan was projected, to follow the completion of the Third Five-Year Plan in 1942. The new plan set the country's sights upon making the transition from socialism to communism, upon surpassing the United States economically (at its highest level of prosperity in the twenties) by 1957.

These general perspectives remain, for they reflect the historical direction of Soviet development. It is true that the Soviet Union sustained heavy losses in the war, while production in the United States doubled during the five wartime years. But the American economy will run into a cyclical crisis and will be affected negatively by the world political crisis, while in the Soviet Union reconstruction and further development will proceed together, and production will expand without interruption. The only questions are to what extent the time required to make the transition to communism may have been lengthened by wartime destruction and how this development may be affected by new dangers to peace.

2 SOVIET ECONOMY DURING WARTIME

Sectors of the Soviet economy suffered severely during the German invasion. Well over one-third and probably nearer one-half of Soviet industrial facilities was in areas overrun by the invader during the first two years. Before the war, the areas occupied by the Germans accounted for two-thirds of the iron-ore output, one-half of the coal, nearly 60 per cent of the pig-iron and steel capacity, the major portion of the aluminum production, and about 25 per cent of the machine-building industry. These areas also included 45 per cent of Soviet wheat and 41 per cent of rye production.*

According to the State commission charged with the task of ascertaining wartime loss, the territory subjected to occupation had a prewar population of 88 million and a gross industrial output of 46 billion rubles, slightly less than half the total industrial production in 1937. The damage caused the national

economy and individual residents of the Soviet Union in the occupied areas was estimated at 679 billion rubles, about eight times the national income in 1938

What they were not able to carry away, the German invader destroyed—including installations, irremovable machinery, housing, museums, hospitals, railroad track, schools. It was estimated that the Germans deprived about 25 million people of shelter and demolished 31,850 industrial enterprises in which about four million workers had been employed. Among other things, they destroyed or carried away 239,000 electric motors and 175,000 metal-cutting lathes, ransacked 2,890 machine-tractor stations, blew up or partly destroyed 61 of the largest power stations in the occupied zone, destroyed three million spindles and over 45,000 weaving looms, demolished or carried away 15,800 locomotives and 428,000 railroad cars. Oil wells, mines, dock facilities, canals and ships were destroyed or looted.* Ten of the twenty blast furnaces built during the first two Five-Year Plans were in this area. Some of the largest units of the heavy machine-building industry, as in Odessa and Kharkov, were destroyed. And this is not to speak of the systematic destruction of collective farms, villages and public institutions.

Obviously these were serious losses. But the gigantic achievements of the Red Army show that the Soviet Union had found means even during the war to compensate to a considerable extent for this disaster. Lend-Lease shipments from the United States of munitions, war production equipment and food, the effects of which were fully registered only in the later stages of the war, rendered important assistance.* However, this aid was supplementary, constituting at a very liberal estimate only some ten per cent of the Soviet war production.¹⁰ The main factors accounting for the remarkable performance of the Soviet war economy, in addition to the basic moral and political factors, are (1) mass evacuation of machines and men from the threatened areas, (2) far-sighted regional distribution of pro-

* According to the report of the Foreign Economic Administrator (April 17, 1945), from the inception of the program in October 1941 through February 1945, the United States shipped \$8.225 billion in lend-lease goods and provided \$0.5 billion in services to the Soviet Union, amounting to less than one-third of American transfers to all Allies.

duction of the Third Five-Year Plan, (3) wartime rise of the efficiency of industry and the productivity of labor, (4) new wartime construction at a great tempo, and (5) rapid reconstruction of the devastated areas as the invader was driven back

Everything that could be dismantled and loaded was moved out of the industrial establishment in the path of the invading armies. The scope of this evacuation was tremendous. More than a million carloads of equipment and material were transferred eastward, including such giant works as the Kirov armaments plant in Leningrad, equivalent to the Krupp or Skoda works in size. Along with the machines, the skilled workers and their families were also evacuated. An indication of the scale of the planned exodus is given by the fact that about a million people, comprising half the population were evacuated from Kiev and Kharkov alone. At the same time, at the height of the invasion most of the munitions plants located in cities near the front kept working as at Moscow, Leningrad and Stalingrad, during the historic battles which turned the tide of war.¹¹

The evacuation itself an epic feat would have meant little from the viewpoint of war production unless the "leap-frog" industries could effectively and rapidly be put to work in the new locations. They needed plant, raw materials, sources of power, labor and an assigned place in the general scheme of production. And it is at this point that the far-sighted planning of production under the Third Five-Year Plan proved invaluable. The evacuated machines and men came not to industrially virgin areas but to the newer industrial centers in regions of the Volga, Urals, Central Asia and Siberia which had been developed further at a forced tempo or newly established during the immediate prewar years.

The Third Five-Year Plan had been in operation for over three years when the attack came. Judging from the average annual rate of growth of heavy industry projected by the Plan, by mid-1941, without taking into account special measures after the outbreak of war in Europe, the increases in production over the 1938 level should have amounted to well over 50 per cent especially in machine-building and metallurgy, fuel and electric power, and chemical industries, where the pace was especially

forced. As already mentioned, the Plan envisioned the creation of a new production capacity greater than the capacity established by the two previous plans combined. And of special significance were the provisions of the plan for distributing the new capacity chiefly east of the Volga.

As Molotov explained to the Communist Party Congress in March 1939, there was to be a greater dispersal of industry with the Far East and the interior districts singled out for special attention. The objective was to obtain the development of industry and food production on a self-sufficient basis in the separate Republics and regions. Construction of new plants in the older industrial centers of the west such as Moscow and Leningrad was strictly avoided although construction already in progress was to be completed. Narrow specialization, such as would make the country dependent upon one enterprise for a given product was discouraged. Under the new plan, giant enterprises such as had been developed in previous years were not so greatly emphasized. Instead emphasis was placed upon the transition to medium and small industrial units to speed up the rate of construction, make possible a much wider distribution of plant and increase the mobility of industry.

To safeguard "the vital interests of the State" efforts were concentrated upon building up the interior regions. The Far East, for example, was to produce all its requirements in fuel and in bulk agricultural products, while attaining self-sufficiency as nearly as possible in metal, machinery, cement, other building materials and in many branches of light industry. Industrial and railroad construction was to proceed at a forced tempo. The settlement of the sparsely-populated Far Eastern region was undertaken. "We regard the Far Eastern Territory as a mighty outpost of Soviet Power in the East which must be strengthened in every way," said Molotov.¹²

Among the leading projects of the Third Plan was the creation of a "Second Baku" between the Volga and the Urals with a capacity of 7,000,000 tons of oil. Near Kuibyshev, the largest hydroelectric power combine in the world was to arise, serving the trans-Volga area. The giant iron and steel mills at Magnitogorsk were to be completed while new coal pits were to be

opened in the Urals, Central Asia and the Far East. Smaller hydro-electric stations were scheduled throughout the interior area, together with new irrigation projects, processing industries, and the development of new fuel and raw material sources in the republics of Central Asia. In addition, the Plan provided for new railroad mileage four times greater than was laid under the Second Plan, for a large quantity of new rolling stock, and for the expansion of water, auto and air transport.

These undertakings, together with new projects undoubtedly initiated after Hitler's attack on Poland, were already well advanced by June 1941. The regions east of the Volga already contained almost three-fourths of the Soviet engineering capacity and the greater part of the new armament plant. A very high proportion of the non-ferrous metal output, as well as over half of the 1940 pig-iron and steel capacity, was located here. Many new sources of essential minerals, which abound in the Ural Mountains, had been uncovered. The synthetic rubber industry was placed here, and a new aluminum industry exceeding the capacity of the entire prewar industry soon arose.

Regional self-sufficiency in food production had also been emphasized. The Third Plan provided for 52 per cent increase in agricultural production, with special emphasis on live-stock breeding, which had lagged. Fortunately, the center of grain collections had shifted out of the Ukraine, to the north and east into the Russian Soviet Federative Socialist Republic, which by 1938 already provided three times more grain for distribution than the region formerly the nation's chief breadbasket.

The stream of machines and men evacuated from the west poured into the newer industrial centers, where they could be tied into the industrial networks already established, or form new branches of industry. Under the system of centralized planning, the accession of the evacuated machinery and workers rendered it possible in the reorganization to adopt new methods of production, increase efficiency and apply mass production methods more widely.

A most important factor leading to expanding production was the great increase in the productivity of labor. In general, this has been one of the most pronounced developments in the

building of socialism. During the first two plans, the production level had been overreached, although the construction projects had not been completed in all cases. This was due to the increasing labor productivity, at a pace which had not been thought possible when the plans were drawn up. During the period of the Second Five-Year Plan, for example, labor productivity in industry increased 82 per cent, although the Plan allowed for only 63 per cent rise. During the war, the tempo of improvement reached new heights. The Stakhanovite movement, which had played so important a role among the workers in increasing prewar output, developed into a "200 per cent" movement, and this in turn gained impetus as "1 000-per-centers" made their appearance. This gigantic effort of the workers * combined with the greater efficiency of the war industries, resulted in the rapid expansion of production.¹¹

Comprehensive wartime statistics were not published. But sufficient data are available to indicate that the pace of industrial expansion in the interior regions during the war exceeded by far even the extraordinary records established by the Soviet economy during peacetime. In steel production, the basis of heavy industry, it was estimated that by the end of the war the Soviet capacity was almost as much as in 1937, when it outstripped Germany in total industrial output. This achievement resulted from the rapid expansion of the industry east of the Urals together with the restoration of the plants of the Donbas and the Ukraine since their liberation in 1943. By the end of 1944 the steel industry behind the Urals had increased its output of pig iron by 47 per cent, of steel by 43 per cent, of rolled metal by 45 per cent and of iron ore by 22 per cent above 1940. In addition to the wartime expansion of the giant Magnitogorsk plant, a great electro-smelting plant was established at Chelva-binsk and another giant blast furnace at Nizhni-Tagil. Other new blast furnaces were blown in during the war in Siberia and Central Asia. Uzbekistan and Kazakhstan now have their first

* In the medium machine-building industry, for example, labor productivity in 1943 increased by 70-80 per cent over 1942, in the arms industry 15 per cent in 1942 over 1941, in the midst of the army mobilization, and for the same year in aircraft 30 per cent, tank production 38 per cent, and in light industry as a whole 46 per cent.

big steel centers, supplied by the coal iron and manganese deposits of Central Asia and operated by Uzbeks and Kazakhs.

Expansion of general industrial output in the new regions was tremendous. During 1943 alone industrial output of the Urals area increased by half. During the war years general industrial production rose seven and eight times in centers like Chelyabinsk, Sverdlovsk, Nizhni-Tagil and Kamensk. New sources of fuel and power were developed in the eastern areas, while the output of existing mines and power grids was greatly increased. In the Kuznetsk basin, for example, coal output in 1944 was over two million tons above 1943, while 200 new coal mines were opened elsewhere. Of the new fields the Kizel mines in the Urals alone have a yearly capacity of 700,000 tons, while another field at Volchanka is expected to produce two million tons annually. The natural gas reserves of the Soviet Union, judged second only to those of the United States, were exploited for the first time on a large scale to supplement oil, coal and firewood in the municipal heating and power systems.

Expansion of the power grid exceeded even the phenomenal records established previously in the Soviet utilization of electric power. During four wartime years the capacity put into operation in the Urals, Siberia and Central Asia surpassed the capacity established under the prewar Five Year Plans, which included such great projects as the Dniepr.¹⁴

New heavy-machine building centers sprang up which supplied turbines, diesels, locomotives and other equipment to the rapidly expanding war industries. For example, the capacity of turbine and boiler units built and reconditioned during the war comprised one quarter of all the power units of the USSR. The production of mine and electrical hoisting machinery in 1944 was several times greater than in any prewar year.¹⁵

The interior regions supplied not only the sinews of war for the Red Army but provided an expanded base for the reconstruction of the devastated areas in the west and south. As the invaders were driven out, no time was lost in beginning the reconstruction. On the heels of the fleeing Germans, came the specialists and materials to start the rehabilitation in accordance with plans already prepared. These first plans provided for the

initial steps in restoring homes, schools, railways, farms and industry. The full story is yet to be told of the epic of the evacuation and the return, of the farsighted planning and social execution of both phases of the movement. A few instances can give only an inkling of the vast and heroic effort. Within nine months after their recapture, the wrecked coal mines south of Moscow were producing at prewar levels. The Red October Steel Works at Stalingrad was producing steel six months after the Germans were driven out of the rubble which was once a city.

Within two years of their liberation, the production centers of the South were again assuming an important role in the Soviet economy. The Germans had devastated the Krivoi Rog iron mines, the Dniepi power combine and the Donbas blast furnaces, and had flooded the coal mines of the Donbas. By the end of 1944, reconstructed Donbas mines had shipped one million tons of coal, the Krivoi Rog iron mines had restored 40 per cent of the prewar output, while many of the blast furnaces, open-hearths, rolling mills and coke batteries were again at work.¹⁶

The reconstruction of the devastated areas proceeded in accordance with a plan going beyond the immediate rehabilitation to link in with the long-range development of these regions. Furthermore, it proceeded on the base of the Soviet economy and with the resources at the disposal of the Soviet Union, although Germany was called upon to contribute heavily in reparations of goods and labor, and every effort was made to obtain the kind of long-term credits which would enable the Soviet Union to ease the burden of reconstruction with large imports of machinery and equipment from abroad, especially from the United States.

How long will it take for the Soviet Union to repair the war destruction? What effect has the war had upon the perspectives of economic growth as advanced on the eve of the war?

It will take some time to repair completely the damage of the German occupation. E. C. Ropes, the Department of Commerce Russian expert, believes that it will take at least 25 years for the Soviet Union to heal her wounds entirely, while the national

economy would be restored to the 1938 level within a decade.¹⁷ This view does not take into account the great recuperative power of the Soviet system, the wartime expansion of the interior regions, the vast resources at the disposal of the Soviet Union and the great potential of Soviet planning

According to Soviet plans, announced soon after the capitulation of Japan, the complete rehabilitation of the economy in the war-devastated regions is to be completed by 1950. This is considered the most important task of the new Five-Year Plan beginning in 1946.

Industry, agriculture and transport are to be restored, not to their prewar status but according to the newest in technique, making use of the experiences gained during the war. The objective is to obtain a much higher level of production and efficiency in the industries destroyed by the invader. The Ukraine is to become again a huge coal and iron center. Even the mills partially restored during the early reconstruction are to be rebuilt along modern lines. The new industrial centers east of the Urals will serve as the initial base for the speedy restoration of the western and southern sections of the Soviet Union. Simultaneously, all other regions of the USSR are to be developed further, especially the new Soviet republics of Lithuania, Latvia and Estonia and other new Soviet regions, where measures will be taken to raise the whole economy to a higher technical level.¹⁸

Five months after the war's end, Stalin set the more immediate objectives as reconstructing the wartorn areas, restoring the prewar level of production in industry and agriculture, and exceeding this level by 1950. He stressed the need for mass production of consumers' goods, raising the people's living standards by "consistent and systematic reduction" of prices, and upon wide-scale development of science with a view to surpassing scientific achievements abroad. With respect to longer-range economic goals, he reiterated the perspective set before the war for overtaking the most advanced capitalist countries within fifteen years. Within this period the Soviet Union is to increase production three-fold over the prewar output—the only condition, Stalin said, that would insure the country against

"any eventuality." This would mean raising the production of pig-iron to 50,000,000 tons, of steel to 60,000,000 tons, of coal to 500,000,000 tons, and of oil to 60,000,000 tons.¹⁹ When this level is reached, Soviet production will stand only slightly below the swollen wartime output of the United States in 1945, with the exception of oil in the output of which the United States would still remain far ahead.

Valuable human resources and time were lost as a result of the war. But the Soviet system emerged stronger than before, possessing all the requirements for rapid reconstruction and development. The Soviet state was in a far better position to safeguard the peace. Socialist society stood ready to resume the peacetime growth and to advance further along the road of transition to communism.

XI. USSR in World Affairs

DURING THE WAR the Soviet Union came to play a decisive role in world affairs. As a consequence of her overwhelmingly major part in defeating Nazi Germany and her long established opposition to imperialist oppression, the Soviet Union enjoys great political prestige among the peoples of liberated Europe and the colonial nations. Her moral and political influence among the peoples everywhere has grown.

From a pariah among the powers, excluded as much as possible from world affairs and methodically isolated, in the short space of a few years the USSR became a recognized world power, playing a global role as one of the Big Three. The old inter-war encirclement of which Nazi Germany was the product and the spearhead could not be broken without at the same time broadening the scope of Soviet participation in international relations. There is not a major problem of the peace in which the influence and the pressure of the Soviet Union are not brought to bear.

In addition, the Soviet position in both Europe and Asia has been improved as a result of the defeat of the Axis and of political changes engendered by the war. On the European continent from the Baltic to the Black seas, and in Asia from the Sea of Japan to the Caspian, the vast "marginal zone" between the capitalist and socialist sectors is no longer a solid anti-Soviet buffer. In these regions political relations have become very fluid. Within them the leading capitalist powers no longer enjoy a predominant position, neither in the exercise of power nor in the realm of ideological influence.

In view of the new world position of the Soviet Union, her relations with the non-socialist nations and with the major

capitalist powers become even more than in the interwar period the pivot of all world relations. Is the Soviet Union expansionist, does she seek to impose her system upon neighboring countries, is it her policy to extend socialism by intervention and conquest, as is charged by reactionaries? Will the greatly enhanced power of the Soviet Union be a force for war or peace?

1 SOVIET FOREIGN POLICY

The Soviet foreign policy has always been a peace policy. It cannot be otherwise because the Soviet foreign policy rests on a socialist base. The inner sources of reaction and aggression disappeared with the elimination of exploitation of man by man. When attacked the Soviet system showed itself fully capable of effective and inspiring defense. It could take necessary and preliminary security measures against an aggressor power. It could counter-attack, it could carry the war home to the aggressor nation, it could develop to the full a war strategy of the offense as well as of the defense. It has powerful armed forces and a great industrial war potential, based on the latest in technique and science. But the history of the socialist system—from its initial, formative stage to the period of the great patriotic war against the Axis—reveals that socialism is devoid of all factors making for aggression. The Soviet Union is the only world power which is neither aggressive nor potentially aggressive.

In the past this could perchance be ascribed to weakness. But after World War II when most of Europe and Asia lay prostrate and the Soviet Union emerged as one of the two greatest world powers, the basic foreign policy of the Soviet Union did not change. Before the war, in March 1939 when collective security had already collapsed, Stalin enunciated the following essentials of the Soviet foreign policy:

- 1 We stand for peace and the strengthening of business relations with all countries
- 2 We stand for peaceful, close and friendly relations

with all the neighboring countries which have common frontiers with the USSR . .

3 We stand for the support of nations which are the victims of aggression and are fighting for the independence of their country

4 We are not afraid of the threats of aggressors, and are ready to deal two blows for every blow delivered by instigators of war who attempt to violate the Soviet borders ¹

In the first comprehensive review of the Soviet position following the defeat of the Axis, Molotov defined the main task of Soviet foreign policy as follows

The Soviet Union has always given first place to promoting peace and collaboration with other countries for universal peace and the development of international business relations

As long as we live in a system of States, and roots of fascism and imperialistic aggression have not been finally pulled up, our vigilance as regards possible new breakers of peace must not be slackened, and efforts to consolidate collaboration among peaceful powers will remain, as before, our most important duty ²

The historical record demonstrates that these are the guiding principles of Soviet foreign policy, not only in words but in deeds To show the remarkable consistency of the Soviet peace policy it is sufficient to recall the leading role of the Soviet Union during the thirties in the fight for collective security and in the world-wide struggle against Munichism and appeasement, the prime role of the USSR in forging the wartime Coalition, and her insistence upon Big Three unity for the consolidation of peace It is particularly significant for the postwar period that this foreign policy coincided with the emergence of the Soviet Union as a world power, and grew more effective as socialism was increasingly consolidated and the Soviet state strengthened

This consistency of the anti-fascist, world security policy arises

from the basic national interests of the Soviet Union in the present stage of world development. The foreign policy of the Soviet Union is devoted first and foremost to assuring the security of the socialist nations in a world which remains by far predominantly capitalist. The Soviet Union covers such a vast extent of territory and is so situated geographically that its security interests are world-wide. From the viewpoint merely of protecting the extensive borders from aggression the Soviet Union must deal directly with at least a dozen countries touching directly upon her frontiers, not to mention the countries which occupy strategic positions along the lines of communication between the Soviet Union and the rest of the world. Besides, the development of technique in all fields and the close inter-relations of the whole capitalist world have made the Soviet Union a political neighbor of every other major power.

While centering foreign policy upon maintaining friendly relations with the major world powers and preventing a hostile anti-Soviet combination among them, simultaneously the Soviet Union has taken other steps to assure immediate security in Europe and Asia. Far from obscuring this interest in security along her transcontinental borders, Soviet policy emphasizes the need for friendly relations with her neighbors to break down the prewar capitalist policy of the anti-Soviet cordon. The defeat of Germany and Japan eliminated the two main bases of fascism and aggression, although the danger of the resurgence of these powers has by no means been removed. On a world scale, especially in relations with the United States and Britain, the Soviet Union seeks to prevent the utilization of a truncated Germany and a satellite Japan by the big victor powers in a combination directed against herself. At the same time, Soviet policy towards her neighbors seeks common regional security against aggression from a revived Germany or Japan, or any other aggressive imperialism.

In this respect, the Soviet position is now quite different than after World War I. At that time the paramount need was to defeat the counter-revolution and the foreign intervention, to overcome as rapidly as possible internal exhaustion and weakness, and to survive in a hostile encirclement bordering on

belligerency After World War II, the question for the Soviet Union was to develop as much as possible the war-born co-operation with other peaceful big powers, to prevent itself from being elbowed out of participation in the settlement of world affairs, and to prevent the consolidation of new hostile formations At no time in its history did the Soviet Union follow an isolationist policy, on the contrary its objective was to overcome the isolation from world affairs which had been imposed by the capitalist powers And one of the important results of World War II was the active role of the Soviet Union in all phases of diplomacy and world affairs, a role which the USSR showed every intention to maintain

As a result of the war, the Soviet Union also improved its strategic position, restoring many of the territories which had been separated as a result of the intervention in the early twenties and recovering some of the important security positions formerly held by Russia In this process it was apparent that Soviet policy was not motivated by desire for territorial acquisition or expansion, but was moved primarily by considerations of security and by the desire to reintegrate the national populations divided by the artificial anti-Soviet borders established as a result of the intervention

Thus, the three Baltic republics which had been forcibly separated from Russia and had increasingly become German provinces during the interwar years regained their independence as Soviet Republics and rejoined the USSR The Soviet security position on the Baltic was further improved by the inclusion of Königsberg Province from East Prussia, which also gave the Soviet Union a year-round port The Leningrad area received added protection by restoring the 1940 Finnish-Soviet frontier, an obvious security measure as shown by the siege of Leningrad during the war Soviet security on the Baltic was also increased by the ceding of the Porkkala naval base on Finnish territory to the USSR The far Northern approaches were protected by the return of the Petsamo area to the Soviet Union While these security measures involved the ceding of some Finnish territory to the Soviet Union, there was little interference with the political independence of Finland, which had served throughout its

short history as an independent state as an anti-Soviet base, engaging in two wars against the Soviet Union

Like Finland, Poland had also been part of the Russian Empire but here too it was not the purpose of Soviet policy to reincorporate all former Russian territory. The new Polish-Soviet frontiers restored to the Soviet republics of White Russia and Ukraine the lands inhabited by White Russians and Ukrainians which had been alienated from the Soviet Union by the prewar imperialist Polish state. At the same time, the Poles retained their independent state, which was enlarged considerably in the West at the expense of Germany by the return of traditionally Polish lands. By treaty with Czechoslovakia, the trans-Carpathian Ukraine became part of the Soviet Republic, resulting for the first time in a single state encompassing all the Ukrainian people. In 1940 the people of Bessarabia, which had been annexed by Rumania in World War I joined with their fellow Moldavians in the Soviet Union to form a Soviet Socialist Republic.

Soviet security in the Far East was also strengthened as a result of the return of southern Sakhalin and the Kurile Islands, and establishment of joint Sino-Soviet control over the Manchurian railroads Port Arthur and Dairen. In addition to the security positions already acquired in Europe and Asia the Soviet Union indicated its intention to protect the Black Sea approaches and obtain equal access to the Mediterranean and Red Sea by sharing control of the Bosphorus, the Dardanelles, Suez and Tangiers. It also proposed to take a trusteeship over the former Italian colonies of Tripolitania on the Mediterranean and Freetown on the Red Sea. Obviously these and other proposals were also designed to prevent the consolidation of the British or an exclusive Anglo-American control over areas which are in the immediate security zone of the USSR.

These security measures must be viewed in relation to the great emphasis placed by the Soviet Union upon a world security system in which the USSR would share full responsibility and leadership with the United States and Britain. Even more they must be seen in relation to the Soviet foreign policy as a whole. Security policy and political policy are inseparable. Every big

power has a regional security policy in the sense that it seeks to establish the security of its frontiers. But very often a regional security policy is used by the major capitalist powers merely as an instrument of imperialist penetration or aggression, as in the case of the Inter-American system or the Western Bloc projected at the end of the war. Among other things, the real content of foreign policy is expressed in the attitude of a big power towards smaller and weaker nations, and especially towards its neighbors. An authentic test of foreign policy is whether it encourages war or peace, another is whether it encourages reaction and fascism or democracy and progress. The contrast of policies can be seen for example, in the whole anti-Soviet "security" system established and sustained by the Western powers in Europe during the interwar years. The regimes of the anti-Soviet cordon were based upon the feudal and most reactionary forces of European society, upon the very elements which created fascist or semi-fascist states as satellites of Hitler Germany. On the other hand, the new postwar regimes of Eastern Europe friendly to the Soviet Union arose from the liberation movement and are based on the democratic and anti-fascist forces seeking to renovate the antiquated social structures.

In the broad, historic sense the best security for the Soviet Union is a socialist encirclement—that is a world predominantly socialist. But from this historically correct generalization it would be erroneous to draw the conclusion that the Soviet Union either can or intends to Sovietize the world. Accusations of this sort are unadulterated nonsense, usually intended to serve as an agitational weapon in the service of an anti-Soviet crusade.

The Soviet system is the product of internal development, the result of a socialist revolution, and it cannot be imposed from the outside. This is a law of social development, and the Soviet Union is first to appreciate its validity. During the earlier stages of the Soviet power much confidence was expressed by Lenin and others that socialist revolutions in the much more highly developed countries of Europe would come to the rescue of the Russian revolution. But even this expectation, which

was not borne out by events, did not obscure or take the place of the perspective of building socialism in one country even while the rest of the world remained capitalist. Lenin and Stalin after him also emphasized another equally valid law of social development, the law of unequal development of nations, as a result of which nations of varying stages of national growth exist side by side—socialist nations, side by side with highly matured or decaying imperialist powers, smaller capitalist nations, and colonial and semi-dependent peoples. Some have made the mistake of interpreting this law in a schematic and static fashion, imagining that social development and relations between the socialist and capitalist sectors of the world are more or less frozen. Nothing could be further from the truth, for ~~unequal~~ development still remains development, and its unevenness as between nations in itself supplies a great dynamic force to history.

It is a fact that after World War II, when the Red Army occupied nine capitalist countries, in whole or in part in Europe, Northern Iran in the Middle East and Manchuria and Northern Korea in the Far East, no attempt was made to impose the Soviet system upon them. This is an historical fact which cannot be obscured by the wild incantations of fascists and reactionaries of all stripes. The essence of the Soviet occupation policy, whether in Europe or Asia, was to assure the complete disarmament of the enemy and the elimination of fascist and aggressive forces, while encouraging the anti-fascist and democratic forces to reconstruct their countries along progressive lines. Hand in hand with this, the Soviet Union used its position *vis à vis* the other big victor powers to press for the complete demilitarization of the enemy powers and to defend the democratic advances of the liberated peoples. The strength of the Soviet policy lies precisely in its recognition of and encouragement to the democratic forces. Summarizing the Soviet position with respect to Europe after the defeat of Germany, Molotov said:

There is still much to be done to insure the correct fulfilment of this [Crimea] declaration. However, there can be

no doubt that, in spite of all its unwelcome consequences, the war with fascism, by ending in victory, has helped in many ways to clear the political atmosphere in Europe and to open up fresh opportunity for the anti-fascist forces to revive and develop more than ever before

While joint Allied control over Germany, Italy and Japan was urged as necessary to prevent the resurgence of aggressive tendencies within them Molotov also stressed a policy of "not impeding the development and progress of these countries as democratic states" With respect to the fascist and semi-fascist states which had turned towards democracy, he emphasized the need to reinforce and promote democratic principles Referring to the fundamental social reforms initiated by the new regimes—such as land reform, nationalization of key industries and the eight-hour working day—the Soviet Foreign Commissar said:

This undermines the former strength of the reactionary, fascist forces and stimulates the development of the democratic and socialist movements in these countries [They give] fresh vigor and confidence to the growing ranks of the democratic movements inside and outside Europe'

Thus neither in declarations of policy nor in practice did the Soviet Union attempt to impose socialism upon the defeated or liberated countries It recognized fully what was taking place, as an outgrowth of the fight against fascism and the war of liberation as an internal development within each country and sought to promote the democratic process But, as Molotov put it the arguments of reactionaries were completely unfounded that "the bold democratic reforms are largely due to the increased influence of the Soviet Union" It is true that the Soviet Union encouraged them but the reforms were essentially and largely the work of the democratic movements themselves

This approach towards the inner political affairs of the non socialist nations is a well-established principle of Soviet policy It would be erroneous to suppose that the existence of the Soviet

Union, its increased power and its greater participation in world affairs do not affect the course and tempo of development in other countries. But this is felt essentially through the role of the Soviet Union in defeating or obstructing the reactionary forces which retard social progress, as in its great contributions to the defeat of the Axis and to the moral and political defeat of fascism. The Soviet Union plays the role of clearing the path, of facilitating world progress, of proving by its own example the superiority of the socialist system. But basically it remains as true now as previously that each nation must advance through its own efforts.

In its approach to the small nations and semi-colonial peoples along the frontiers, the Soviet Union acts as a multi-national state, within which many socialist nations live peacefully side by side. Just as the elimination of exploitation has removed the source of aggression against non-Soviet nations, it has also created for the first time in history the foundation of full national equality. National and race prejudices are as foreign to the Soviet Union as is capitalist exploitation. The victory of socialism destroyed all forces retarding the free development of the many nations comprising the Soviet Union. Mutual distrust and suspicion among the nations, left as a heritage from landlord-capitalist domination, were overcome in the process of building socialism and by an active Soviet policy of encouraging the economic and cultural growth of the formerly oppressed and retarded nations. Every Five-Year Plan provided for a greater pace of development of industry, collective agriculture, education and other social services among the formerly oppressed peoples than for the Russian Soviet Republic, which comprises the Great Russians who under Tsardom were the dominant nation of the empire. Each major nation has a separate state formation, with its own Soviet institutions, and enjoys the full right of self-determination. Within the Soviet Republics, numbering sixteen at the end of the war, nationalities evolving towards fuller nationhood enjoy a high degree of self-government and autonomy in their well-defined national areas.

Among the Soviet nations a great equalization of develop-

ment takes place, as compared with the tendency to greater unevenness of development which is characteristic of the capitalist sector. As between the Soviet Republics, and even within them, there is a great social and cultural variety, summed up in Stalin's famous phrase: National in form, socialist in content. The free development of nations, which is characteristic of the Soviet democracy, takes place upon the homogenous base of the socialist economy. The unity and fraternity of the Socialist nations, combined with the planned and centralized nature of the economy, guard the Soviet system from retrogressive influences operating from the outside. At the same time, the variety of peoples and cultures, the diversity of multi-national development, and the high level of popular democracy, impart great flexibility to the Soviet system. Both its unity and resilience were demonstrated during the war.

These developments, together with wartime changes, have made the Soviet system more complex, from the viewpoint of the necessities and further growth of the nations which comprise it. The rapid wartime economic expansion of the interior regions accelerated even more the development of the nations of Central Asia and Siberia, while the Soviet Republics in the path of the German invasion suffered heavily. At least during the first phase of reconstruction the republics and regions developed during the war serve as the base for the restoration of the economy in the west and south, reversing the prewar situation. The return of alienated land in Europe creates special problems of the full integration of the national populations and of economic development of these relatively backward regions. The great variety of security problems along the greatest land frontier in the world, and the many common interests of the border nations in reconstruction and friendly co-operation, create a more complex situation in the sphere of foreign relations.

The Constitutional changes during the war to widen the autonomy of the constituent Soviet Republics in the field of foreign affairs already recognized the new needs of the Republics and indicated a trend towards greater and more flexible Soviet participation in world diplomacy and in cultural and economic

interchange The greater autonomy of the Soviet Republics provided a new element in world relations This was already registered at the San Francisco Conference where the Soviet Republics of White Russia and the Ukraine became members of the United Nations Organization It was also demonstrated in the separate arrangements for maintenance of friendly relations and economic co-operation between these Soviet Republics and their neighbors in Europe

The Soviet position in favor of colonial independence and non-intervention in the internal political affairs of other nations is a natural outgrowth of her own multi-national system, an expression in the field of world affairs of the principle practiced at home As it is, the very example set by the Soviet Union in the solution of the national problem was always a great inspiration to the colonial and dependent peoples, and to all democratic and anti-imperialist forces When the Soviet delegation at the San Francisco Conference of the UNO championed the cause of independence while the United States which claimed no colonial aspirations supported the British position against independence, the prestige of the Soviet Union rose even higher There could be no question but that Soviet participation in the trusteeship system would further the self-determination of nations⁴

Practical application of this policy in the colonial sphere was shown in the Soviet policy towards Korea and China United States troops occupied the southern part of Korea after the defeat of Japan, while the Red Army occupied the northern half This area is situated in a region which is of the most immediate security interest to the USSR, while it is very remote from the United States In contrast to the policy followed by the American authorities in their zone, the Soviet Union immediately and without hesitation disarmed and interned all the Japanese troops, removed both the Japanese and puppet civilian authorities, and permitted the Korean liberation committees to establish themselves in power

In China Soviet policy sought to establish mutual security, in a very complex situation A 30-year Treaty of Friendship and Alliance was signed on August 14, 1945, between the USSR

and China, providing for joint prosecution of the war against Japan until final victory and for joint measures to render impossible the repetition of aggression and violation of the peace by Japan. A series of supplementary agreements was signed for joint Sino-Soviet ownership and management of the Manchurian railroads, Port Arthur and Dairen, covering the temporary Soviet occupation of Manchuria, and recognizing the right of self-determination for the Mongolian People's Republic and China's sovereignty over Manchuria and Sinkiang. Never before had the national sovereignty of China over all her territories and the principle of non intervention been accorded such complete recognition as in these agreements. Where the common security needs of the Soviet Union and China against Japan demanded joint measures, as in Manchuria, the sovereignty of China was meticulously and clearly stated.

The fact that these agreements were signed with the government of Chiang Kai-shek, which represented the feudal-reactionary forces then engaged in preparing civil war against the Communists, clearly emphasizes the importance which the Soviet Union attached to the principles of full independence and strict non-intervention. The Soviet Union had not rendered direct aid to the Communist-led liberation regime at Yen-an at any time during its existence. Nor did the treaty and agreements with the Central Government signify Soviet aid to the regime of Chiang Kai-shek in the threatening civil war, as some mistakenly believed. The Soviet Union had established clearly its policy of non-intervention and full recognition of Chinese independence. It was left to the Chinese people to establish that national unity based on democracy which alone could assure an independent China, fully capable of playing a leading role in Asia.

In all spheres the Soviet foreign policy was effective in encouraging the anti-fascist, democratic and colonial liberation movements. However, the Soviet Union exerted its greatest moral influence upon the labor and democratic movements through the example of the achievements of the Soviet system. An agitational apparatus was not necessary to register this. The accomplishment of the Soviet Union in the war was the

greatest "agitational" weapon which could possibly be conceived. The superiority of socialism over capitalism is a reality of world development.

If in 1929-1933, when the USSR had completed only its First Five-Year Plan, the contrast was already so sharp between unemployment combined with destruction of productive forces in the capitalist world and the uninterrupted expansion of the Soviet economy and standard of living, the contrast will be even greater in the immediate years ahead. The capitalist world moves inevitably towards another economic crisis at a time when war recovery is not even in sight and as the American economy accumulates the elements of a crash greater than that of 1929. On the other hand, on top of the wartime economic expansion of new industrial regions and the reconstruction of the occupied areas, the USSR promises to exceed its prewar level of development by 1950. This powerful contrast will have its political effects.

2 ECONOMIC CO-OPERATION

If the Soviet Union is to play a greater role in world affairs it can also be expected that she will seek to participate more than before the war in world economic relations.

Soviet participation in the Bretton Woods conference in July 1944, when the USSR gave preliminary support to the plan for the International Bank and Monetary Fund, indicated that she was ready to pursue an active role in the economic as well as political phases of postwar development. The contributions of the Soviet delegations to the first United Nations food and agricultural conference and to the social and economic section of the San Francisco security conference provided the same evidence. This contrasted with the forced isolation in interstate affairs and in economic relations imposed upon the Soviet Union during the interwar period. These beginnings of economic co-operation on a world scale between the USSR and the capitalist powers occurred during the war as part of the Coalition effort. Whether economic co-operation would be

established after the war depended primarily upon political co-operation to preserve the peace

Before the war the Soviet Union entered into commercial relations with other countries only to a very limited extent. Her foreign trade was always small as compared with the volume of world commerce and with the level of Soviet production. During the period 1925-1937, Soviet imports and exports together amounted to no more than 15 per cent of world trade. Although imports loomed large in a single industry like machine tools, as a whole the foreign trade of the Soviet Union was but a negligible factor in world commerce. Foreign trade never reached the level of pre-revolutionary Russia.

However, this need not necessarily be the pattern for the coming years. The prewar situation in Soviet foreign trade reflected transitory as well as permanent factors. Basically, world trade plays quite different roles in a socialist economy and in a capitalist economy, and this difference is decisive especially as long as the capitalist sector enjoys economic primacy.

Throughout the capitalist sector, foreign trade, while registering a division of labor among regions and countries, is also the channel through which world tribute is collected by the leading countries of monopoly capitalism, and especially by the biggest monopoly groups within them. Capital investment goes hand in hand with the export of goods, and this serves the function of increasing the exploitation of the more economically backward and weaker nations. Through the channels of investment and trade, which are dominated by the monopoly capitalist groups, corporate controls are extended throughout the capitalist sector, spheres of influence are established, the struggle among the monopolies and the various national monopoly groups proceeds, and so on.

Within the socialist sector, on the other hand, trade and capital investment between the socialist republic and autonomous regions perform an altogether different function. Here, too, the exchange of products registers a division of labor—as between cotton-producing and wheat-producing areas, for example. But there can be no question of exploitation of one

nation by another, since exploitation of one class by another no longer exists within any of the socialist nations. Socialist capital investment and trade among the nations serve the function of equalizing economic development as between the more developed and less developed nations, by which the latter are helped to overcome the historic lag. Barriers and restrictions of the type which impede trade within the capitalist sector are unknown, because the struggle for markets and spheres of influence is non-existent. Trade and investment, in accordance with the all-Union plan and, within that, in accordance with national and regional plans, serve the function of socialist construction in all branches of the economy as a whole, while at the same time establishing a much greater tempo of development for the less-developed nations, leading to equality of economic status.

These basic differences in the operation and attributes of the socialist and capitalist sectors determine, in the main, economic relations between them. In essence, the policy of the leading capitalist countries in relation to all world economic problems can have no other purpose than to strive for a larger share of the world market for their own monopoly capitalist groups, for control of sources of raw materials, for extension of their own corporate interests, for improving their strategic positions to further such aims. On the other hand, the essence of the policy of the Soviet state is to prevent the penetration of monopoly capital into the socialist economy, to assure the uninterrupted evolution of socialism to communism, and to establish the necessary strategic safeguards for this program.

Arising from basic differences in the system of society, exports and imports of the Soviet Union to and from the capitalist countries play a role in the Soviet Union different from that in the capitalist economy. Soviet industry does not need to develop markets abroad to keep running at full capacity. The problem is quite different—to obtain the maximum expansion of industrial capacity, which is never enough to satisfy the insatiable socialist market, that is, the ever growing needs of the people. In Soviet economy, and particularly in the present stage of socialism, relative surpluses may be developed from time to time in this or that product, but this is the exception.

and not the rule. For the Soviet Union, exports serve the necessary function of paying for imports of such raw materials as may not be sufficiently available within the country and of manufactured goods useful to the economy

On the other hand, the Soviet Union can absorb an almost unlimited quantity of imports without in any way disturbing its economy. This is so, because, first, the limits of plenty for all are established by the amount that can be made available; imports thus supplement the production of the socialist economy. Secondly, foreign trade is a government monopoly, integrated into the whole system of socialist planning. Once foreign goods enter the Soviet Union they are freed of all the laws of the capitalist market and immediately become subject to the Soviet system of planned distribution. Imported products, from machines to spoons, are purchased by the state in accordance with the plan for the whole economy and enter the system of distribution alongside the products of Soviet industry.

These, in bare outline, are the basic economic laws which govern the exchange of commodities between the socialist and capitalist sectors. But this does not mean that the volume of foreign trade between the two sectors must remain infinitesimal under all circumstances and at all times.

The establishment of socialism withdrew the Soviet Union from the world market, in the sense that the laws of the capitalist market could not longer apply there. But the severance of the Soviet Union out of the world market need not have resulted even during the interwar years in the practical cessation of the exchange of commodities between the USSR and the rest of the world. During the extremely difficult period of the reconstruction after the civil wars, when exports could not be spared at all, the Soviet Government sought to encourage imports through commercial agreements, being willing to pay for them by granting concessions to foreign capitalists for the controlled and limited exploitation of natural resources in the Soviet republic.⁵ These never developed to any important degree.*

* From 1921 to October 1928, 2,400 proposals for concessions were received, but only 178 were concluded, including 31 agreements for technical assistance. Con-

Later, during the great strains of the socialist construction, consistent efforts were made to conclude trade agreements with the capitalist governments and to improve credit terms for large-scale purchases. If these were not substantially forthcoming, it was due to the reigning policy in the West of political isolation and economic boycott of the Soviet Union. This, of course, did not prevent the Soviet Union from carrying through industrialization and the mechanization of agriculture with her own resources. The process would have been eased with the supplementary aid of the products of foreign industry. Many additional hardships were created for the Soviet peoples by the economic boycott.

Virtual suspension of trade with the Soviet Union, over and above the "natural" economic barriers between the two systems, had the effect of deepening the crisis in the capitalist world. Alexander Gerschenkron, economic specialist of the Federal Reserve System, recognizes this:

Most economic problems of the twenties would have been capable of easier solution if Russia's elimination had not torn a great gap in the network of world trade and capital movements. Bygones are bygones, but past mistakes teach the lessons of today. And one of the most impressive of these lessons is the necessity of Russia's incorporation in the world economy.⁶

The author does not use the word "incorporation" in the old reactionary and interventionist sense. It is very widely realized by now that the Soviet Union will not permit capitalist penetration into the socialist economy, even to the limited extent that she was ready to permit it in the twenties, as the price of economic intercourse. Gerschenkron means that postwar world trade and reconstruction cannot proceed successfully without economic as well as political collaboration with the Soviet

cessionary agreements governing 68 enterprises employing 20,000 workers were in operation in 1928. Even at the height of the New Economic Policy, in 1924-1925, the entire share of private capital in large-scale industrial production was less than 4 per cent. Foreign capital accounted for slightly over 0.5 per cent of all assets of industry in 1926-1927.

Union He recognizes that the Soviet Union cannot and will not give up its government trade monopoly, which is indispensable to the maintenance of socialist planning

In fact, he sees a certain advantage to be gained by capitalist industry from the Soviet trading monopoly, arising from the fact that the Soviet government is the only one in the world able to chart its needs well in advance and distribute its orders abroad for a given period Thus the Soviet trade agreement provides an element of stability such as no other business arrangement can offer To a certain extent, although not in volume, Soviet purchases in capitalist countries can be compared to wartime government orders and to peacetime government budgets for public works, supplying a certain element of stability to an economy characterized by instability and anarchy In addition, no such contradictions exist in the Soviet Union between government and producers as may develop in capitalist countries between government policy and private monopolies Soviet trade policy is tangible—it can be decided, stated and carried out unequivocally

As for the Soviet Union, expansion of foreign trade will facilitate postwar reconstruction and the transition to communism In the sphere of foreign trade, one of her main problems is to obtain the maximum volume of imports, of a nature and quality meeting the requirements of the Plan for a given period The other main problem is to arrange for State payments for imports through expanding exports, which also must be allocated in accordance with the over-all Plan For this the Soviet Union needs time Cash payments and short-term credits do not permit time to develop exports on a scale sufficient to pay for great quantities of imports

As in the past, Soviet purchasing missions abroad continue to negotiate contracts with individual concerns, and these are mostly of a short-term nature But the question now is quite different As the war in Europe drew to a close, the Soviet Union requested from the United States government long-term credits running into the billions, the only basis upon which a sizable foreign trade could be developed No question was raised in the United States about the good faith of the Soviet Union

in meeting its obligations. The extension of government credits necessitated a political decision involving long-range co-operation for peace, just as the granting of lend-lease aid during wartime was a political decision.

Naturally, the American capitalists, like the British, were torn between fear of the political effects of the approaching economic crisis and fear of the growing world influence of the Soviet Union—which will grow anyhow, whether they do or do not undertake large-scale trade with the Soviet Union. The political consideration was placed rather plainly, if crudely, by the professional anti-Sovieters who demand that the United States should not deliberately support Soviet industrialization, for this would increase the strength and the danger of "Bolshevism." Thus, William H. Chamberlain, among others, asked "Should we strengthen the economy of a country that is highly militarized and that seems to be aiming at something close to world domination of Europe and Asia?"

Such people immediately discover in every independent stirring of the peoples and in every democratic advance within the "borderlands" of Europe and Asia sinister manifestations of "Red Imperialism." The openly expressed position of a Chamberlain, the social-democrat, merely reflects what is in the mind of many big capitalists. But, at the same time, the latter are also moved by the desire to expand their sales, particularly to a customer of A-1 credit rating, and by the fear that competitors, such as the British, may beat them to the deal. These antagonisms within the imperialist groups, the conflicting fears of dwindling markets and Soviet influence, and the uncontrolled actions of separate monopolists each deciding the question for himself one way or another, played their role in determining whether large government credits were to be extended to the Soviet Union.

Quite independently of how the leading capitalist countries may decide the question of credits, social and political changes proceeding in Europe and Asia tend to increase economic interchange between the Soviet Union and the capitalist world.

Soviet foreign trade within these regions tended to increase even before the war, when most of the countries bordering on

the Soviet Union were dominated by anti-Soviet regimes. As the liberated countries of Europe remove the old barriers to co-operation with the Soviet Union, common policies for security and reconstruction replace the former hostility. Economic co-operation becomes a vital factor in substituting for the old dependence upon German and other imperialisms an independent policy of national development. In Asia as well, the trend to independence and the great wartime growth of Soviet Asia may in time favor the expansion of economic co-operation. And as Soviet reconstruction proceeds, hand in hand with the further growth of the economy, the Soviet Union is able to increase exports, including even the means of production, without diversion from its own development plan.

Even before the war the long-term trend pointed towards a steady decrease of agricultural exports and towards an increase of finished industrial goods and of products in higher stages of processing*. Industrialization had basically altered the nature of Soviet exports. In 1913 agriculture accounted for 58 per cent of the value of the gross output of the economy and for 74 per cent of exports, mostly grain. By 1934, agriculture constituted only 27 per cent of the Soviet economy and provided only 26 per cent of the exports. It even appears possible that in the next generation the Soviet Union may become a grain-importing country*.

Producers' goods began to appear among exports. Such items as agricultural machinery, automobiles and spare parts, textile machinery, sewing machines, tractors and electric bulbs were among exports in 1937. Primary industrial materials like pig-iron, coal and coke, oil, asbestos, cement and fertilizer were also exported. These exports, most of them going to the Baltic countries and the East, were still negligible in quantity and amounted to a slight fraction of Soviet production. But the fact is that the rising trend of such exports was already appa-

* In 1933-1937, grains constituted only 8 per cent of exports, as compared with 39 per cent in 1913. Lumber products, petroleum products and furs during the same period together provided 38 per cent of the exports. Metals, machinery and equipment were less than four per cent of the total exports, although between 1929 and 1937 exports of metals doubled and exports of machinery and equipment increased fivefold.

rent, and will be increasingly pronounced in the postwar period, although they cannot be expected to represent more than a small portion of Soviet production

The export of producers' goods and of Soviet technology had begun to play a role in the industrialization of a number of neighboring countries of the Middle East, particularly in Turkey and Iran. Whole textile plants, for example, were installed in Turkey by Soviet industry and technicians. Not only the influence of the Soviet achievements and general political policies, although these are of greatest importance, but also the direct assistance rendered by Soviet technology can be expected to increase under conditions of friendly relations with neighboring countries. Many of the problems of development in Eastern Europe, involving the reform of the semi-feudal agrarian economy and in many instances the first steps towards large-scale industrialization, are similar to the technical problems which the Soviet Union had to solve in her own development. Many peoples related to the nations of Soviet Asia inhabit the border regions, from Korea to Turkey, and these, too, face development problems similar to those solved by the Soviet peoples. The greater autonomy of the Soviet Republics will favor closer economic co-operation with their non-socialist neighbors. The Soviet Republics are now entitled to conclude not only diplomatic treaties but also agreements covering the whole range of economic interchange with their neighbors.

In this respect the wartime development of the Soviet Far East and Central Asia will encourage the foreign trade of the separate Soviet nations and regions with their neighbors in Asia. Widely dispersed within the vast region of the Soviet Far East, from Lake Baikal to Vladivostok, there already exists a highly developed heavy industry, sustained by local sources of fuel and strategic minerals, and capable of manufacturing a wide range of products, including ships, locomotives, machine tools, synthetic fuel, cement and airplane engines.

Typical of the development of Soviet Central Asia, is the Uzbek Soviet Republic. Today, it is a thoroughly modernized country situated in the very heart of "backward" Asia, and

comparing favorably with highly developed nations of similar population in Western Europe, such as Sweden. In 1938, it had more tractors and harvester combines in use than Germany. Its cotton yield is the highest in the world. It not only grows cotton, it has its own textile industry, its own merchant marine, beet-sugar refineries, mechanized flour mills, fertilizer plants, oil wells and refineries, extensive power and irrigation works. It also has a base for heavy industry in steel mills and metal-working factories. By mid-1942, before the even swifter wartime development of industry, 75 per cent of Uzbek production was already industrial. Economically, it is the most powerful of the states with Islamic background of Asia or Africa. Even in 1939, the industrial production of Uzbekistan exceeded that of Turkey, Iran and Afghanistan combined, although the population of these countries was greater by seven times.

As the Soviet Union breaks through the isolation into which she had been forced during the interwar years, her great influence in the bordering areas will be expressed not only in freer political relations among kindred peoples, but also in the interchange of products and ideas. The leading capitalist nations can no longer lay claim to dominant influence in all the non-socialist areas of the world. They must compete with the Soviet Union, not in the kind of economic warfare which is typical of relations among themselves, but in terms of fundamental social and developmental concepts. It is essentially a competition of policies, no longer carried on between capitalist states exerting a vast preponderance of power in relation to the Socialist nations, but between powers which are not so unequally matched, especially when one considers the homogeneity of the socialist system and the conflicts and contradictions within the capitalist sector.

A leading American specialist on Far Eastern affairs, Owen Lattimore, put the situation in Asia this way:

Problems of the industrialization of China and the rest of Asia, now so fashionable, should be considered in the light of the fact that industrialization is no longer identified with the unchallenged prestige of capitalist thought. The

prestige of Soviet industrial production has increased with every victory won by weapons made in Soviet factories, and this prestige extends to the system of production as well as to the things produced. Along the inland frontier of Asia we may expect to see Soviet engineers increasingly consulted where formerly the only engineers consulted were European or American. If we are politically intelligent, we shall expect the Soviet engineers to be consulted on the organization and management of production as well as the design of machines and the layout of factories. We may count on seeing, over wide areas, the partial acceptance of Marxist ideas and the adoption of one or another aspect of the Soviet system.¹⁰

This picture may be a little overdrawn, particularly in its conception of the transfer of Soviet methods to the semi-colonial regions. Democratic methods are indigenous to colonial liberation movements, and they have a way of evolving their own forms to meet their specific needs of development, as shown by the new democracy of the Communist regions in China. But there can be no doubt that the Soviet example evokes great enthusiasm especially among kindred peoples, and that the Soviet Union is able to contribute economically to the development of the non-socialist nations, in its own way and in accordance with the nature and policies of its social system. This kind of aid, particularly since the Soviet Union respects the sovereignty of its neighbors, will prove very acceptable to nations seeking to throw off the shackles of semi-feudalism and of imperialist domination.

This became especially apparent in Europe as the continent was liberated from the Nazis. The redistribution of economic power in Europe became one of the central problems of security against a resurgent German imperialism. One of the essential steps was to reduce the industrial potential of Germany while increasing the industrial power of other European nations, especially those developing on a new democratic basis. The problem was complex enough, but it was complicated further by the war devastation and exhaustion of the liberated countries.

and by Anglo-American opposition to the basic democratic reforms of the liberated countries

Soviet economic co-operation, particularly in the absence of credit and long-range economic aid from the Western powers, immediately became an important factor to such countries as Poland, Yugoslavia and Czechoslovakia, and even to the former Axis satellites, Hungary, Rumania and Bulgaria. The mutual assistance treaties between the Soviet Union and her wartime Allies in Europe provided for postwar economic interchange on the widest possible scale and for mutual aid in reconstruction. Despite her own great reconstruction needs, the Soviet Union spared grain and other food for the liberated peoples in addition to what was supplied through the United Nations Relief and Rehabilitation organization. New trade agreements were concluded with the countries of eastern Europe, which contributed to setting their industries going again. The wartime development of new sources of Soviet raw materials in the East, together with the revival of the economy of the Ukraine, increased the ability of the Soviet Union to export raw materials in return for finished goods. At the same time, the improvement of relations with neighboring countries permitted the utilization of the natural transport system of the Danube, connecting the Black Sea region of the USSR, which produces many valuable raw materials, with well industrialized Czechoslovakia, as well as with Rumania, Hungary and Yugoslavia.

Aside from their pressing economic needs, the liberation regimes of Eastern Europe had every reason to expand their economic relations with the Soviet Union. The artificial severance of economic interchange with the USSR during the inter-war years had harmed their economies, restricting their already limited sphere of trade and leaving them largely at the mercy of the German-dominated monopolies and cartels. Zdenek Fierlinger, Prime Minister of the Czech Provisional Government, for example, saw the development of trade with the Soviet Union as a means of escaping from the restrictive forces of the cartels which before the war had rendered the steel and coal industries of his country incapable of competition abroad.¹¹ Another great inducement for the smaller countries to develop

close economic relations with the USSR is to avoid as much as possible being drawn into the disastrous economic crises of the capitalist world. To these smaller countries the Soviet economy can to an important degree impart many elements of stability, while exclusive economic ties with the West would draw them deeper into a crisis.

This does not necessarily imply a closed economic sphere in Eastern Europe, under a so-called Soviet monopoly. Such an outcome would be of benefit neither to the Soviet Union nor to the new democracies. Multilateral trade holds much greater advantages. The Soviet Union wants to broaden its economic interchange with the capitalist world, and especially with the highly developed industrial countries from which it can obtain machines and manufactured products. The expansion of Soviet trade with Eastern Europe would provide a broader trade cycle only if the latter region were simultaneously to develop mutually advantageous economic relations with other nations of Europe and the world. There are no internal necessities, either of an economic or political nature, for a closed Soviet sphere in Eastern Europe. Obviously these countries will not want to sacrifice their basic democratic reforms in return for loans and credits from Anglo-American capital. But isolation would not be of their own choosing, and it could be imposed upon them only by a political and economic boycott from the West.

XII. State Capitalism, Fascism and Democracy

IN PRACTICALLY EVERY country there is a tendency towards greater state intervention in the economy. This takes place in many forms and under a great variety of political conditions.

State regulation of the economy or state planning, as it is sometimes called, is a concept which can create only the greatest confusion when employed in a general and abstract manner to describe all systems and forms of government control without regard to the specific conditions prevailing in a country at a given time. One basic distinction must be drawn immediately, as between state regulation or control of the economy in the Soviet Union and in capitalist countries.

The only country in which complete state management and supervision of the economy exists is the Soviet Union. This is socialist planning, possible only in a nation which has expropriated the exploiting classes and socialized all branches of the economy. Through their Soviet state, the workers and collective farmers, together with the trained professional and administrative personnel, own and supervise the whole productive economy. State intervention, in the sense in which it is used in capitalist countries, has no meaning in the Soviet Union. The state is no longer the old state, an instrument of the exploiting classes, and therefore has lost completely the function of intervening in the economy on their behalf. And since the complete victory of socialism in industry and agriculture, the Soviet state has had no need to intervene against any other class. It regulates, supervises, rules in the interests of the whole people, which no longer consists of antagonistic classes. Socialist planning is an integral part of the Soviet system which cannot exist without it.

The basic distinguishing feature of state regulation in a capitalist country, irrespective of whether this or that measure favors one or the other class, is that the essential relations of capitalist production are not disturbed. As long as this is true, the basic anarchy of capitalist production and the class antagonisms of capitalist society remain, rendering it impossible to have anything approaching complete regulation or planning. This does not mean that state intervention leaves everything just as it was before. That is a separate matter, with which the rest of this chapter is concerned. But as long as state regulation and control take place within the framework of capitalism—that is, without the basic revolutionary change involved in the abolition of capitalism—it is not socialism, nor can any of these measures of control be considered socialist measures. It is this that gives meaning to the term state capitalism, which, in general, signifies measures of state regulation, control and intervention that proceed on the basis of capitalist relations of production.

During the period of the New Economic Policy (NEP) in the Soviet Union—from 1921, the end of war communism, to 1927, when the First Five-Year Plan was adopted—various forms of state capitalism were encouraged by the Soviet state, at a time when the peasants operating on a capitalist basis still comprised the great majority of the population, while socialized industry was yet little developed. The key measures of the NEP were the tax in kind, which gave the peasant freedom to trade on the open market in his surplus product left after the tax; the leasing of some enterprises to private capitalists; and the granting of concessions to foreign capitalists to exploit natural resources in exchange for manufactured goods and machinery. This meant a certain freedom for capitalism to develop, but under control of a proletarian state retaining its alliance with the peasantry, and still engaged in a struggle against the capitalists.

This was state capitalism, but no longer the kind of state capitalism existing in a capitalist country. The working-class state controlled it, used it to establish the conditions for socialist construction, and to supplement socialist industry during this period. The Soviet state was able to restrict state capitalism and

fix the limits of its development. The class struggle was sharpened. But in the end the proletarian state and socialized industry won out, inaugurated the Five-Year plans and carried through the collectivization of agriculture, eventually eliminating all class exploitation and establishing socialism throughout the Soviet economy.¹

With these preliminary observations, we can now turn to some of the main problems of the fight to consolidate the anti-fascist war victory and to defeat the new forces of reaction which came to the fore at the end of the war.

1. "DILEMMA" OF LIBERALISM

The expansionist drive of American imperialism, unfolding rapidly with the defeat of the Axis, raised the danger of the United States becoming the main source of reaction and aggression in the postwar world. This, together with the threat of a catastrophic economic crisis, placed before the labor and democratic forces of America the responsibility for halting this march towards reaction and for finding the most effective means of anti-fascist struggle.

One of the chief obstacles to this is the general confusion generated by the doctrines of "free enterprise" and by the crusade to impose the economic "freedoms" on the rest of the world. On the one hand, the reactionaries label every measure of state regulation that does not benefit the monopolies a step towards "totalitarianism," towards state "tyranny" over the individual. Even the mild nationalization proposals of the British Labor government are attacked as "socialism," while the truly socialist measures of the Soviet Union are recklessly compared with the practices of the Nazi dictatorship. On the other hand, the basic democratic reforms of the anti-fascist regimes of Eastern Europe, even when treated sympathetically, are often confused with socialism, while some of the most elementary forms of state regulation needed to cope with the approaching crisis in the United States are condemned as steps towards fascism or socialism, depending upon the viewpoint of the critic and whom he wants to scare.

These confusions are all the more harmful when they penetrate into the ranks of the labor and democratic movements, which must employ every means and every channel of activity to contain, curb and obstruct the monopolies, the real source of fascist and aggressive tendencies. And one of the most important means for controlling the trusts, for preventing them from turning the country into a base for world fascism and aggression, is state intervention against them, which can be brought about only through the influence and pressure of the anti-fascist and democratic forces.

The fascist state represents a high level of regulation and control not only of the political activities of the nation but also of its economic life. From this the superficial conclusion is often drawn, even in circles which are opposed to monopoly, that every form of state intervention or regulation is a step towards "totalitarianism"—the catch-all phrase most often used to confuse the diametrically opposed natures of fascism and socialism. In essence, this is a reactionary theory, although many middle-class liberals may succumb to it, for it is not in accordance with reality and it serves to obscure the fact that the state continues to serve the interests of monopoly capital also under the cloak of non-intervention.

Typical of this approach is the final report of the Temporary National Economic Committee, whose investigation of monopoly is the most thorough yet undertaken by any government agency. The main thesis of TNEC is that economic concentration of power in the hands of a small group of monopolies has restricted freedom. It comes to the conclusion that "large-scale collective enterprise [monopolies, trusts] is here to stay and that the decision which must be made is to fix the social and economic responsibilities of such enterprise in order to eliminate all danger of arbitrary power."² With this there can be no quarrel. But the point is how to fix the "social and economic responsibilities" of monopoly, how to restrict and control monopoly. And it is at this point that the Committee cannot extricate itself from the horns of a dilemma which it has created for itself. It shies away from government intervention and control because this would result in the "regimentation of

men by government" (actually, the regimentation of the men of trusts), which it finds just as deplorable as regimentation of men by monopoly. With even-handed fairness it rejects both as the "antithesis of liberty."

With the dangerous confusion typical of the period, TNEC sees socialism as the great menace, and makes confusion worse confounded by declaring its opposition to socialism "whether it be of the Nazi or communist variety" True, even within this general confusion it must concede an important difference: Socialism of the "communist variety" is seen as the "negation of the concept of private property" (to be exact, of private property in the means of production and distribution) On the other hand, the Committee understands that "the concept of fascism preserves the system of private property, but for only a part of the community, and that part much the smaller." And without bothering to go more deeply into the subject, TNEC condemns both systems because they represent "arbitrary" government power¹³

As a consequence, the final proposals of TNEC are notoriously inept even for a liberal committee Aside from the wealth of material made available, the Committee might just as well not have undertaken the investigation if it hoped to produce anything tangible in the form of a solution. The old creed is shamefacedly reiterated free competition must remain as the principle of the economy At one place TNEC gently rebukes itself: "We are not wistfully wishing for the return of any previous period in our economic evolution"¹⁴ Elsewhere it must acknowledge that "the new forms of industrial organization are such that competition has become a vastly more difficult status to maintain, and the American ideal of free living for people is not nearly so easy of achievement as before organizations superseded men in the economy"¹⁵

Harassed by fears of both fascism and socialism, neither of which it approves, the Committee is beset by contradictions on every side It must concede that corporate organization is here to stay and that therefore the era of free competition is a thing of the past But it cannot liberate itself from the old concept that only free competition can provide the principle of

a free society, while it must at the same time acknowledge that monopoly domination of the economy overrules the principle of free competition. The Committee finds it incontestable that the growth of monopoly delimits liberty, but it rejects government measures against private monopoly in the name of the "totalitarian" danger.

This is a blind alley. The result is—abdication, complete helplessness in the face of the growing power of the monopolies and the threat of fascism and aggression arising therefrom.

In the long run socialism, and only socialism, can resolve the contradictions of capitalism, and remove once and for all the source of reaction and war. The better this is understood and the more widely it is accepted the easier it will become to resist and defeat the tendencies towards fascism and war. But the immediate question that has to be answered presents itself within the framework of capitalism and the bourgeois state. The choice is not between fascism and socialism, between fascist dictatorship and a proletarian state. The problem for the people is how to block and defeat the fascist forces, how to prevent the most reactionary and aggressive sectors of the imperialist bourgeoisie from turning the state into an instrument of reaction and aggression.

Facts are stubborn things and they cannot be evaded. The concentration of economic power is here to stay, whether in the form of private or state monopoly. The tendency is towards even greater concentration, and the general trend is towards the further extension of government controls, the growth of state capitalism. It is futile to attempt to reverse this trend. The problem is to prevent the use of the state controls and regulations for reactionary purposes, for bolstering the position of the monopolies at home or aiding their expansion abroad at the expense of other peoples, while fighting to use existing and additional controls to curb the monopolies in the interests of the people. The labor and democratic forces must view the state apparatus as an instrument, although not the only one, to be used by them to impede, hamper and curb the monopolies, to restrain and destroy the tendency towards fascism.

The state controls over the economy which have developed

during the past decades are not the primary cause of capitalist monopoly. It is true that state intervention can and does facilitate the process of concentration, whether in the form of private or government monopoly. But the primary source of capitalist monopoly is the actual concentration of production and centralization of ownership which proceed as a natural law of capitalist development, whether the official state doctrine is free competition as in the United States or regulated competition as in Britain. And a high level of concentration facilitates the growth of state capitalism, for it makes it possible by a simple decree to place a whole industry or branch of the economy under direct state control.

It is this possibility, inherent in monopoly capitalism itself, that accounts for the fierce resistance of the monopolies in America to government ownership and other higher forms of state capitalism, especially when they can have no guarantee except under fascism that the state apparatus will remain in their hands. Even under the most developed form of fascism, under the Nazi state in Germany, measures of nationalization were avoided. However, in Nazi Germany and also to a more limited degree in Britain and even less in the United States, the monopolies sought certain forms of state intervention on their behalf, to force and legalize the cartelization of the economy under the domination of the monopoly giants. This tendency is accentuated during periods of crises and is relaxed during periods of relative stability. But the tendency grows through the ups and downs of the economy and of world politics.

It is not increased government intervention in the economy which gives rise to fascism. The question is intervention for what end and on whose account. The history of fascism in Germany and Italy shows that the fascist state is created when the monopoly capitalists, allying themselves with the other most reactionary political forces of the nation, are able to establish their exclusive domination over the state apparatus by defeating and crushing the democratic movements. Through increasing their pressure upon the state and their influence within it, the labor and democratic forces can prevent the domination of the

state by the most reactionary predatory forces. Under conditions of great mobilization of popular forces against the threat of fascism it may even become possible to use the state apparatus of capitalism against the monopolies, reaction and fascism. But even before such a political crisis is reached various forms of state action against the monopolies can be obtained by a democratic coalition. To reject this course of action, in the name of a general and meaningless opposition to all state intervention in the economy, is to surrender beforehand to the trusts and to fascism.

Wartime controls have shown, even in the United States where the doctrine of "private enterprise" rules supreme, that government intervention in the economy can establish a certain level of regulation for a given national objective. Investment, production, raw materials, prices, wages and foreign trade were supervised by the government. Direct state ownership and investment increased greatly the capacity of the war industries, and particularly in those industries where monopoly would not of itself increase capacity. In the form of lend-lease large capital-exports were made to our Allies. Agencies of all kinds were established by government to maintain the controls. These agencies were managed by representatives of big business, and operated in its interest. Nevertheless, it was demonstrated again, as had previously been shown in the first world war and in the great economic crisis, that government can apply controls and can intervene in all phases of the economy, and can even make capitalists conform to a schedule.

It is true that this relatively high level of control takes place only under special conditions—in times of war, of preparation for war or of crisis. It is also true that under peacetime conditions state capitalism develops in direct proportion to the weakening of capitalism within the country, and that it may assume a reactionary or a democratic form depending upon the specific relation of class forces. Accordingly, every measure of state intervention must be judged in relation to the general political environment as well as from the viewpoint of its specific objective. It would be just as mistaken for the labor and democratic movement to support state intervention in general

and under all circumstances, as it would be to oppose all measures of state control

2. STATE CAPITALISM AND SOCIALISM

The growth of political reaction, the tendency towards fascism, is one aspect of monopoly capitalism. But simultaneously, from the viewpoint of historical progress, extension of the corporate structure of industry and finance and the accompanying trend towards greater government intervention in the economy accumulate the elements for the complete negation of monopoly capitalism.

Production has become largely social, although ownership remains private. Tremendous aggregates of production, involving millions of workers and encompassing whole industries and groups of industries, are brought under centralized technical planning and control, although the basic anarchy of the capitalist economy as a whole remains. Engineers, technicians and administrators in the employ of the corporations manage the process of production within a given industry, while the corporate structure, cutting across separate ownerships and branches of the economy, provides an intricate network of control. The whole structure represents a level of organization unknown in the earlier, the free-competition stage of capitalism. Ownership has become largely impersonal, represented in shares and stocks scattered among groups of capitalists and even small shareholders, while a relatively small group owning a comparatively small share of the stockholdings maintains actual control.

To the extent that government ownership, nationalization, and various measures of state control develop in the sphere of trustified economy this is already an admission on the part of the monopoly capitalists themselves that they can no longer manage their vast corporate structure without the aid of the state. The growth of the corporations, side by side with increasing state intervention, accumulate all the objective conditions for control of the monopolies by the nation, and their eventual elimination. This is significant, not only from the viewpoint

of the eventual abolition of capitalism and the establishment of socialism, but also from the viewpoint of the immediate stage of the struggle against fascism. Expropriation of the whole corporate structure by a socialist state is one thing, applicable only when the political forces which can accomplish this task are fully matured, and able to take power not only for the working class but for the people as a whole. But experience also shows that a coalition of anti-fascist, democratic forces, acting for the nation, can undertake democratic measures of state control which will eliminate the effective centers of private monopoly even before the advent of socialism.

On the eve of the socialist revolution in Russia, Lenin saw this as a practical and immediately possible course of development. In *The Threatening Catastrophe and How to Fight It*, written six weeks before November 7, 1917, he saw a possibility for effective state control over the capitalist economy by the revolutionary *democratic* forces, that is, without the dictatorship of the proletariat, and therefore before a socialist revolution.

Still at war, suffering from the growing disorganization of transport and the whole economy, Russia was threatened with famine. In the face of the approaching catastrophe, which everyone saw, the republican government established after the overthrow of the Tsar remained inactive, while the capitalists, as Lenin put it, were "deliberately and consistently sabotaging (damaging, stopping, wrecking, hampering) production, hoping that a terrible catastrophe may mean the collapse of the republic and democracy, of the Soviets and the proletarian and peasants' unions, thus facilitating the return of a monarchy and the restoration of the full power of the bourgeoisie and the landowners."

In these circumstances, Lenin attacked the government for its failure to impose measures of state control over the capitalists, as a means of defending the democratic gains and avoiding economic catastrophe. He advocated the following state measures: unification of all the banks and their nationalization; nationalization of the syndicates or monopolies, abolition of commercial secrets (trade agreements, patents, etc.), compulsory organization by the government of industrialists, employers

and merchants into cartels or syndicates, and the compulsory organization or control of consumers' associations

These proposals for complete state control of the economy were not entirely new, since some of these measures had been adopted in one form or another, although never completely, by the belligerent states in the first world war. It was a program for the establishment of complete state capitalism, that is, complete state control of the economy, while at the same time retaining the capitalist relations of production. Even in the nationalized sector of the economy—the banks and the syndicates or monopolies—Lenin did not propose to abolish private ownership, since according to his plan the shares or stocks would still remain in the hands of the private owners. The state was to run and control the institutions, with the help of the trade unions, without as yet abolishing private property. And the capitalists forced to join the cartels were to retain ownership of their properties but would be compelled to operate them under government and trade union control. As Lenin put it, such a program would not take away a single kopek from a single owner. But it could defeat the reaction and avoid the catastrophe.

At the same time, as Lenin pointed out, the realization of such a program would be a great step towards socialism, provided it were put into effect by a revolutionary-democratic state, by which he meant a state controlled by a coalition of the workers and peasants. Here Lenin made a distinction which is at the heart of the difference between the traditional Social-Democratic approach and the Communist approach to the question of state capitalism. So-called evolutionary socialism, of the type advocated by the leaders of the British Labor Party, for example, views nationalization and public works undertaken by the capitalist state as socialist measures, as in themselves already establishing socialism. Lenin, of course, always rejected this view as reformism, as having nothing in common with Marxism. In his *Threatening Catastrophe* he emphasized throughout that what he was proposing was not socialism, but thorough-going democratic measures to be undertaken in a revolutionary democratic way. Thus, in describing the measures

of state control adopted by Germany and the United States during World War I, he pointed out that these controls were established in a "reactionary-bureaucratic way" from above, while he proposed to carry them out in a "revolutionary-democratic way," involving the trade unions and popular organizations. Lenin was not referring here to socialization of the trusts and monopolies, possible only after the seizure of state power by the working class, but to measures which could be taken by a democratic coalition even under capitalism, when it is exhausted, weakened and unable to cope with the critical situation. Russia was in the midst of a bourgeois-democratic revolution which was growing into a socialist revolution, and it was in this light that he viewed the development of state capitalism. "*In a truly revolutionary-democratic state, state monopoly capitalism inevitably and unavoidably means progress towards socialism*" (Italics added)

In other words, he was not advocating state capitalism as a final solution, in the manner of the Social-Democrats, or in the sense of a transitional, evolutionary development of socialism within capitalism. This must be understood, else we will be completely at sea. In the broad historic sense, state monopoly capitalism is an advance because it signifies greater socialization of production (not of ownership) and more centralization of control through the state. As Lenin defined it, "state monopoly capitalism is the fullest *material* [note, he underscores material] preparation for socialism, is its threshold, is that rung in the historic ladder between which rung and the one called socialism *there are no intermediate rungs*"⁸. This is in line with Lenin's general analysis of imperialism as both the highest stage of capitalism and the eve of the socialist revolution. But in reality, in a specific country at a specific time, state monopoly capitalism before it is turned into its opposite may play a reactionary, even barbarously reactionary, role, as it did in Germany. As Lenin so clearly put it, the point is: control by which class and in whose interests?

"Either in the interests of the landowners and capitalists; then we have not a revolutionary democratic but a reactionary bureaucratic state, an imperialist republic, or in the interests of

revolutionary democracy, then *this is in reality a step towards socialism.*"*

State monopoly capitalism can become progressive *in reality*, can become a step towards socialism, "can be made to benefit the whole people" and by this token "cease to be capitalist monopoly" only when the state is in the hands of a revolutionary democratic coalition, when the state is not yet socialist but is no longer under the domination of the capitalists

That is the central thought in Lenin's famous pamphlet. The measures advocated by him for a short period between the bourgeois and socialist revolutions in Russia were never put into effect by the republican government, even in a revolutionary situation, for that government never became "revolutionary democratic." Measures of state control were put into effect thoroughly, in a completely different manner, in a socialist way, by the Soviet government as soon as it came into power

Nevertheless, Lenin's concept of democratic state capitalism, not as an end unto itself but as an instrument of a coalition of democratic forces, throws considerable light upon present-day problems. It helps us distinguish between imperialist state capitalism, government intervention in favor of the monopolies and reaction, and democratic state capitalism, government intervention in favor of the people as a whole and against the monopolies and reaction. It also helps us understand that democratic measures of state control, such as nationalization carried out by an anti-fascist coalition government, are not socialism, although they create new and favorable conditions for an advance towards socialism

3. NEW DEMOCRACIES IN EUROPE

Upon defeat of Nazi Germany, a new phase of democratic development opened in liberated Europe. The vast democratic and socialist movements unfolding there sought to consolidate the anti-fascist war victory through basic democratic reforms which would uproot the sources of fascism in their countries and open the path to social progress. The German capitulation

and the political defeat of fascism in Europe did not of themselves provide assurance against a reactionary restoration. This assurance could be given only by the anti-fascist and democratic forces within each country.

With many variations from country to country, anti-fascist regimes comprising a coalition of the working class, peasants and democratic middle class sectors came to the fore in Eastern and Central Europe immediately following the liberation. Within this coalition, which was forged in the resistance, the working-class parties from the start played a leading role, and in some cases the leading role. In varying degrees in different countries the economic and political role of the big capitalists and landlords was greatly diminished, in some nations on the verge of complete elimination.

These are not capitalist governments of the old type, nor are they socialist states. The preceding governments of Eastern Europe had been essentially coalitions of big landlords and capitalists, sustained to a large degree by economic and political aid from the imperialist powers. The internal base of these reactionary regimes had been greatly weakened by the defeat of fascism. The German and Italian influence had also been largely destroyed. To the extent that the fascists and collaborators were purged and the resistance movement together with its armed forces was able to constitute itself as the new regime, to that extent was the old bureaucratic and reactionary state machine fundamentally changed. The coalition governments in most of the liberated and former satellite nations of Eastern and Central Europe were no longer dominated by the old reactionary classes, although sectors of these classes were still represented in some of them and the influence of the reactionary groups still remained powerful in a number of these countries. In most cases, the working class, peasant and democratic middle-class parties, themselves reformed and reconstituted in the process of the liberation and the postwar reconstruction, formed the ruling coalition.

These coalitions could not and did not seek to establish socialism. But they did seek to complete the anti-fascist, democratic revolution within their countries, through a whole series

of basic democratic reforms aimed at eliminating the remnants of feudalism and the centers of monopoly capital, both of which had served as the base of the old prewar reactionary regimes as well as of the wartime collaborationist governments. In most of these countries, popular democracy prevailed for the first time in their history, and the liberation-democratic front governments were not so much concerned with the purely formal aspects of democracy, which often clothes the rule of the reactionaries. The anti-fascist and democratic forces were more interested in releasing and developing popular democracy, the creative energies of the people, and in carrying through such political reforms as would permit the fullest development of the people's forces.

In countries like Poland, Rumania, Bulgaria, Yugoslavia and Hungary the agrarian reform is a basic prerequisite for eliminating the backward and retarding forces of the nation and establishing the foundation for democratic advance. And it was in these countries that a radical agrarian reform was soon begun, and, moreover, in favor of the peasantry. The feudal land-owning class was being eliminated, removing the age-old source of political reaction. The agrarian reform undertaken by the liberation governments differed radically from the limited reforms of the reactionary governments in these countries after World War I. The latter were not only limited in extent, but placed the entire burden of the reform upon the peasant, who had to pay highly inflated prices to the landlord and as a consequence became burdened with debt, while he had little help or none from the state. The big landlords retained their dominant position in the countryside and in the political life of the country.

The new agrarian reform was more thorough. All the land of the big landlords was distributed among the peasants, including the agricultural workers, while peasant lands were untouched. The only exception that was usually made is that landlords who participated in the liberation struggle were permitted to retain a part of their holdings and received compensation for the lands taken from them. But the land of the large proprietors guilty of treason or collaboration was confiscated without compensa-

tion. The price which the peasant had to pay the state for the land was within his means and he was given a long period in which to make payments. But the agrarian reform did not stop with the redivision of the land. The liberation governments undertook the responsibility of providing the peasant with the means of production, including agricultural machines, and encouraged the formation of peasant co-operatives for the purpose of selling farm products and purchasing manufactured goods for the use of the peasant. Cheap government credit was also made available to protect the peasant from usury.

In a number of countries the agrarian reform during the first months of democratic rule already changed basically the position of the peasant and altered the old class relations in the countryside. In Hungary, for example, where the large landed estates were predominant throughout the country, about four million acres of landlord properties were confiscated and distributed to over a half million peasant families, agricultural workers and artisans. The medium-sized farm, averaging about five acres, now predominates. In Poland about two million persons, including the members of families, benefited directly from the land redistribution.¹⁰ Such far-reaching changes do not take place without a fierce political struggle, and they can be successfully maintained only through the consolidation of the democratic regimes. As a result of the reform, which was carried out with the help of the peasant organizations and committees, large sectors of the peasantry have for the first time been drawn into political life.

Although the problems of the development of a democratic Germany are of a special kind, the agrarian reform is also of utmost importance from the viewpoint of eliminating the Junker militarist influence. In territories taken over by the Polish republic the Junker holdings were abolished. But the large feudal estates remaining within Germany, which next to the trusts provided the most important base of the aggressive militarist and reactionary forces, would also have to be eliminated. This would not only remove one of the main obstacles to democratic development within Germany, but would also help satisfy the land needs of the peasants and of

the Germans repatriated from neighboring countries. Towards the end of 1945, such a reform was already being prepared in Thuringia, Saxony, Mecklenburg and Brandenburg, all within the Soviet occupation zone. In these provinces, over six million acres of the landed estates were scheduled for redistribution. Of this amount, four million acres were to be given to agricultural workers and peasants. Over two million acres, comprising large stud and seed farms which could not be broken up, were to be operated by the state or by co-operative organizations.¹¹

As can be seen, the agrarian reforms were long overdue democratic measures, absolutely indispensable to the creation of democratic states. These reforms were in no sense socialist, being in character no different than the agrarian reforms carried out in the more advanced capitalist countries long ago. In this respect, Eastern Europe has done a more complete job of reform than even the United States where the large plantations of the South, retaining many semi-feudal forms of labor, still persist. At the same time, the twofold result of the agrarian reform must be appreciated. On the one hand, it removed a major obstacle to democratic development, on the other, by the redistribution of the land and aid to the small and medium peasant the reform recreated the basis for the growth of capitalism in agriculture, but under conditions of popular democracy and of a new relationship between industry, agriculture and the state. Together with government aid to the peasants and the retention in the main of a free market for agricultural produce, the agrarian reform provided the base for an alliance between the working class and the peasantry, the main class forces represented in the new liberation regimes.

With respect to industry, finance and raw material resources the new regimes of Eastern and Central Europe also undertook a series of basic reforms which had the double objective of eliminating the centers of fascist reaction and of opening the way to the democratic reconstruction and development of the nation. The most important measure in this respect was the nationalization of key industries, mines, transport and banking in a number of countries. As was the case with the landed estates, expropriation of property took place only in the form

of the confiscation by the state of German and collaborationist property. But the German, and in some countries also the Italian, penetration into the key enterprises had been so complete that confiscation of these interests would effectively eliminate the main centers of monopoly capital in many regions of Eastern Europe.

Expropriation, however, was not a general measure applying to all capitalist property. Nor was it precluded in all cases that enemy and collaborationist property acquired in this manner by the state would not be shared through joint ownership with private capitalists and that certain state enterprises would not be offered to concessionaires for development. Nationalization in itself is not entirely new to these countries, where it had been employed even before the war to establish some state banking, transport and mining enterprises. It is also possible that in some sectors of the nationalized economy, if not in a major portion of it, the ownership by individuals of shares and stocks may not be disturbed, and in fact would be encouraged through the purchase of government shares and bonds for the purpose of raising additional development capital. Also, side by side with the state and nationalized enterprises there existed entirely privately owned, non-trustified industrial and commercial establishments, private ownership of the land, and a more or less free market. As a whole, capitalist relations of production continued, within a mixed economy in which state enterprise and state regulation play a central role.

What distinguishes this development from some of the state measures of prewar Europe is not only the broader scope of the nationalization and the greater importance of state enterprise in the economy, which enable the state more effectively to direct national reconstruction and development. The chief distinguishing feature in these countries is that state capitalism was being developed at a high level by regimes in which the influence of the big capitalists and landlords, as classes, had been largely eliminated. These are new democratic states, ruled by coalitions of popular democratic forces which are able to carry through nationalization and other measures of state capitalism in a really democratic manner, in the interests of the

people as a whole. In this process, as in the agrarian reform, the popular forces were drawn into full participation, through the greatly expanded trade unions, co-operatives, and other organizations of the people.

This was not socialism, for capitalist relations of production still characterized these countries, nor was it the old form of capitalism, for the working class played a leading role and democratic state capitalism was predominant. These were states in which the democratic, anti-fascist revolution was reaching a high level, and for the first time in Eastern Europe was establishing democracy. They were characterized by the leading role of the working class within the anti-fascist, democratic coalition. Democracy was being established in many of these countries not only for the first time, but also without the big bourgeoisie and the big landlords.

If this development reached a high level in Eastern and Central Europe, it was also a powerful trend in the West. Here, however, although greatly weakened by the war, monopoly capital was still strongly entrenched. Moreover, Anglo-American intervention and support sought to sustain the structure of monopoly capitalism and to retard the anti-fascist, democratic movements. If in France, for example, the principle of confiscating enemy and collaborationist property were to be applied, not a single major trust would remain with the "200 families." But even here, as in Italy, things could not remain at a standstill. Retreat meant reaction, the full restoration of the power of monopoly capital over the state, and the establishment of pseudo-fascist regimes to replace the national liberation front governments. To advance meant to go in the direction of Eastern Europe, but in countries where monopoly capital was more highly developed, where state capitalism under control of a democratic coalition would result almost overnight in a gigantic nationalization, where the working class from the start plays the leading role.

As in Eastern Europe, also in the West the emphasis of the working-class parties was not upon the establishment of socialism, but upon the problems of the immediate stage, upon basic democratic reforms which would eliminate the centers of

reaction and fascism, and complete and consolidate the victory over fascism. Thus Maurice Thorez, leader of the French Communist Party which counted over a million members and was the largest party in France, explained the nationalization proposals of the liberation front as follows

There is absolutely nothing of socialism or communism in them; they are measures of a democratic type present in the program of the Radical Party for more than a half century. They are in no way measures of expropriation, except for the traitors. They in no way create new positions or developed bureaucracy. On the contrary, effective nationalization of the banks, insurance companies, mines, of electric power and the big metallurgical plants would permit considerable reduction of the number of functionaries in the apparatus of control. They would permit the rationalization of methods of organization, of administration, of management of the enterprises, and would free new forces of labor.¹²

Thorez also pointed out that the democratic forces of France would not accept a fake nationalization program, a "caricature of nationalization," such as was already carried out with the mines of the Nord and Pas de Calais. The nationalization of these mines, which were a part of the vast coal and steel network controlled by the biggest trusts, actually favored the mineowners at the expense of the miners and the people. For what had happened was that the government had taken over the responsibility for running the mines under great difficulties, while the owners were assured of a handsome profit in the form of royalties calculated on the basis of their returns during the best prewar years. The mineowners accepted this solution readily, for they were afraid of democratic nationalization which would have expropriated the fascist collaborators and involved the miners themselves in the management and running of the mines.

If in France, monopoly capital, although considerably weakened, had been able to maintain its positions even after

the liberation, this was of course even more true of Britain in the first postwar period. However, the general trend of European development was reflected also in England where the first postwar elections resulted in a clear-cut majority in Parliament for the Labor Party. This party took power in a government which had already developed a comparatively high level of state capitalism. The Labor Party program called for extending these measures even further, including nationalization of the Bank of England, of the coal and steel industries and of transport, as a means of renovating the British economy and halting the economic decline. However, while reflecting the same popular trends in Britain as existed on the continent, the Labor Party victory did not result in a government of a popular democratic coalition type, such as existed in Eastern Europe. It is true that the building up of the mass trade unions during the war had led to some important changes in the leadership of the trade union movement, but this was as yet little reflected in the leadership of the Labor Party and the Labor Government, which remained as of old. The traditional opportunism and pro-imperialist nature of the core of the Labor Party leadership, which continued to seek alliances with the still powerful monopoly and Tory forces, was a major obstacle to the realization even of a democratic reform program, let alone the grandiose plans for "establishing socialism."

This was reflected not only in the continuation of the Tory foreign and colonial policy, but also in the way the Labor Government set about realizing its domestic electoral program. This is illustrated in the first nationalization measure pertaining to the Bank of England. Like the nationalization of the French coal mines, the measure was of greatest benefit to the entrenched interests. Things were to remain much as they were before, with the exception that the stock of the bank would be held by the Treasury. Not only was compensation for the stockholders "very fairly assessed" on the testimony of the highest financial circles, but they would continue to receive the same income as for more than twenty years past, with the guarantee of the state behind it. The Government now had the right to appoint the managers and directors of the Bank, and issue

instructions to it, but the latter was also true previously, and the old leadership was to be reappointed. Under the circumstances, leading financial circles on both sides of the Atlantic found little to criticize in the measure. *The Economist* of London, professing great relief, put the key question and gave the reply

The basic question remains. Why do the government think it worthwhile to introduce a Bill in which any real substance has been so carefully whittled away? One must conclude that the Bill is a symbolic sacrifice on the altar of Party doctrine and that it is not intended to make contact with reality at any point. It will do very little harm—at least in present conditions .¹³

Nevertheless, the reactionaries were not entirely satisfied, for nationalization, no matter how defective from the democratic viewpoint always holds forth the possibility of eventually being transformed into an effective instrument by a more representative state. Behind the Labor Party leadership stood a potential coalition of popular forces. Although unorganized as such and operating outside as well as inside Labor Party ranks, these forces had made possible the election of the Labor Government, their pressure could still bring about significant changes in the leadership of the Labor Government and in the nature of its program. The Labor Party had merely taken over imperialist state capitalism, and continued to run things very much in the old fashion. But this could do little to solve the many and complex problems of Britain and the British people. Imperialist state capitalism would have to be transformed into democratic state capitalism by the working class and popular forces, in their advance to socialism, before any worthwhile progress could be made in halting the economic decline of England, in a progressive alteration of the relations between the mother country and the colonies, and in bringing about a radical departure from the Tory position in the field of foreign policy.

XIII. The World Crisis

IN THE FIRST months after the defeat of the Axis, new symptoms of war danger appeared. Under the strain of multiple postwar problems, the victorious Coalition showed signs of falling apart. The principle of Big Power unanimity was seriously endangered as Britain and the United States tended towards a political combination against the Soviet Union.

Looking back over the past three decades the postwar instability and flux can be seen as a continuation, in greatly aggravated form, of the basic crisis which has beset world capitalism since the first global conflict. The outstanding characteristic of this whole period is the continuous development and stability of socialism in the Soviet Union as compared with the basic instability and unevenness of capitalist development.

At no time since World War I was it possible to overcome a crisis without at the same time preparing or uncovering another, either in the economic or political spheres. We have been living in a state of permanent crisis for the past quarter-century. This crisis of a whole system, relieved now and then by short periods of relative stability in this or that country, was punctuated by World War II. The global conflict has provided no final solution to the standing crisis of world capitalism. But it has altered considerably the conditions under which it continues to grow and deepen.

The postwar phase of the crisis is compounded of many separate crises and conflicts. An attempt is made in this book to define certain basic changes and tendencies accelerated or set loose by the war that provided the framework of the world crisis in its present stage. These changes are still in process, themselves stimulating further transformations, and some can be perceived only in their barest beginnings.

This is above all a period of great change and conflict, of

sharp struggle between those forces which seek to drag the world backwards and those which strive to lead it forward. The struggle proceeds simultaneously along many lines, and on different planes, and it assumes multiple forms. The postwar world defies all attempts at oversimplification or schematicism.

It is comparatively simple, for example, to present the world crisis as a cleavage between the socialist and capitalist powers, with all that this implies in the way of inevitable war between them. This may suit those who seek to form a new Axis against the Soviet Union, and for whom the theme of the inevitability of war serves as a pretext for preparing war. But this schematic picture does not portray the realities of world development. The Hitler Axis was built on the theme of the inevitability of capitalist war against socialism, and it miscarried. Its leaders failed to appreciate the basic disunity and instability of monopoly capitalism, and the essential unity and stability of socialism. They mistook their own temporary ascendancy, acquired by stifling whole nations, for the future of the world, whereas they embodied everything retrogressive and decadent in their own system.

Fascism itself is the symptom of extreme capitalist crisis, the specific state form under which monopoly capital in Germany and a number of other countries sought to resolve by force and at the expense of the people the inner contradictions of the social system. Far from making possible a uniform capitalist front against the Soviet Union, the coming to power of fascism in some countries accentuated the antagonisms among the capitalist nations. The inner conflicts of the capitalist world—within nations and between them—outweighed the tendency towards a common front of the ruling classes against socialism, even before the anti-Soviet ideologists realized it. When war finally did burst forth it came in the Far East in the form of an attack by Japan upon the colonial preserves of the other imperialist powers, and in Europe in its initial stage as a conflict among the capitalist powers themselves. This was a dramatic expression of the uncontrollable contradictions inherent in capitalism, of the inability—nay, the impossibility—of its reactionary statesmen to marshal world forces for a given end.

The evidence of history shows that moribund ruling classes usually overestimate their own strength and underrate the power of their progressive antagonists. The fascist imperialists of Germany made this mistake. As they went down in defeat others among the victors immediately supplied evidence of the same arrogant blindness, notwithstanding the proof supplied by the war of great Soviet strength, and the new democratic wave stimulated by the war in many capitalist and colonial countries.

If additional evidence was required, the war has shown that socialism is firmly established as the advanced stage of historic development. Its intrinsic strength, even under the most adverse conditions, was demonstrated in the greatest test to which any system can be subjected. The Soviet system displayed unparalleled solidity, and also flexibility, in the supreme test. When at the end of the war Stalin declared that the Soviet state and the socialist system had emerged from the conflict stronger than before, he stated, without exaggeration or bragging, the most significant fact of contemporary history.

Socialism provides a type of stability hitherto unknown. It has inexhaustible dynamism and the capacity for development at a great tempo, without class conflict and in accordance with its own laws of evolution. Knowledge and mastery of these laws, which provide the essence of planned development, have produced the first truly man-made social system. The day when socialism was seen only as an inspiring and brilliant effort at social revolution, as another "storming of the heavens" in the style of the Paris Commune is long since past. Socialism is a victorious "storming of the heavens," brilliant not only in the initial revolutionary phase but also in its evolution as an established social system, which continues to evolve in the midst of a capitalist world.

During the quarter century in which the Soviet Union has lived in an hostile environment, the danger from the outside has increased the tempo of socialist construction, has sped the maturing of socialism as an efficient and vigorous organism. Under pressure of war, in the vast reaches of the Soviet Union unoccupied by the invader, socialist development was accelerated at an even greater tempo, and was adapted to the needs of

defense Also after the war, new pressures against the USSR far from intimidating the Soviet peoples heighten their determination to hasten reconstruction, increase the pace of development, and strengthen the unity of the socialist nations

The source of the postwar crisis cannot be found in the Soviet Union, which demonstrates a remarkable stability, nor can it be ascribed to the contrast between the socialist and capitalist systems The stronger position of the Soviet Union has the effect of deepening the basic crisis within capitalism, not because of the imagined expansionist aims of the USSR, but because it has become more difficult for the imperialist powers to find a way out of the crisis at the expense of the Soviet Union Certain statesmen, of course, do not give up the attempt to solve the accumulated and complex problems of their system by preparing war against the Soviet Union Their recklessness is born of myopic faith in the atom-bomb monopoly and failure to appreciate either the real depth of the capitalist crisis or the full potential of the Soviet system Although these efforts may at first give the appearance of smoothing over inner antagonisms—as between Britain and the United States, for example—they at the same time accentuate the very contradictions which these anti-Soviet leaders hope to eliminate by war.

Viewing the postwar world from the comparatively prosperous United States tends to create illusions and to distort the vision The United States, which suffered least in the war and gained much from it, has become the mainstay of world monopoly capitalism But it assumes this role when world **capitalism** as a whole has been greatly weakened, and when its fundamental crisis has become sharper and more universal

All Europe today stands at the crossroads of social change. In Germany, the backbone of monopoly capitalism on the continent has been broken In Eastern Europe, the new democracies have taken the first major steps towards permanently eliminating the big landlords and capitalists from political life In France and Italy, monopoly capitalism is in a precarious position, seeking to muster reaction at home and abroad against the great working class and anti-fascist movement which has gathered in these countries Spain, the last stronghold of fascist

power in Europe, is on the verge of a new upheaval. Greece, twice-enslaved in a decade, is a volcanic island in the stormy ocean of Europe.

Throughout the Middle East and Asia, colonial and semi-dependent peoples are in motion against imperialist rule. Whole colonial empires hang in the balance. It would indeed be one of the finest ironies of history if the Indian people, by gaining their own independence, were to relieve the British working class of its greatest impediment, its thinly spread share of colonial loot, and enable the workers to bring real socialism to England. And it would be equally beneficial for the American workers if the present democratic and Communist movement in China were to sweep aside the feudal refuge of centuries and save China from becoming monopolized by American capital. Even the oligarchy of Japan, sustained by MacArthur, rules uneasily over a people stirred by democratic currents.

The decline of the British Empire, given greater impetus by the war, is in itself sufficient to produce a world crisis. So vast a conglomeration, convulsed from within and battered from without, can hardly reach this advanced stage of decay without further unsettling all world relations. A British ruling class, accustomed to centuries of world power, today finds itself in the undignified posture of begging dollars and political sustenance from billionaire America, in return for which it offers the know-how of world domination and somewhat easier access to its own uncertain preserves. But the demise of an Empire cannot be arranged over the banker's till.

It is, indeed, a world capitalism shaken to its foundations and torn by innumerable inner conflicts, that the United States is now called upon to stabilize. Whole continents must be fed. If the world system is to be restored even to the edge of capitalist stability on its old foundations, American economic and military power must seek to sustain the old ruling classes in a dozen leading countries simultaneously. It must attempt either to bolster those powers seeking directly to stem the collapse of the colonial system or itself undertake the task. It must be active on all continents, for the crisis is universal. It must clash everywhere with the social forces of progressive change.

A reactionary restoration on a world scale, no less, is the demand placed upon American imperialism as it reaches the pinnacle of power. Its great monopolists, concerned with the ever more difficult task of finding profitable investment for their great accumulations of capital and with extending their corporate structures into the four corners of the world, cannot remain for long oblivious to the call of destiny. Billions of surplus capital and arsenals of atom bombs are at their command. The one might be used to blast away the specter of a profitless world, while the other could be employed at least partially in another big wartime boom to hold off the approaching economic crisis of overproduction at a time when most of the world will still be suffering from severe underproduction.

Here lies the danger to the peace. Monopoly capitalism in crisis will produce an aggressor. But the general crisis now deepening also produces new fissures and upheavals, and radical realignments of nations and classes. While the United States has become the pivot of world capitalism, the scope of world capitalism has become more limited, and tends progressively to become more restricted.

Prophecies of doom have become quite fashionable in this atomic era, and there is no intention here to add still another gloomy forecast. It is true that the great productive powers developed by capitalism are increasingly employed for ever more destructive ends. Atomic energy, which can be turned to the reconstruction of a war-weary and poverty-stricken world, makes its first appearance in the form of a weapon of immeasurable destructive power.

However, it is not the caliber, but the politics of a weapon which is decisive, in a period when science is universal and tends to be equal among all leading countries. The destructive power stored away in the atom-bombs of the United States is no match for the forward movement of nations to socialism, which is the future of America as it is of the world. Through whatever stages nations must pass along this road, the movement itself cannot be atomized. The transmutation of metals by fission of the atom has its human parallel in the transmutation of capitalism into a higher, the socialist form of society.

APPENDIX

The Seizure of German Patents by American British Monopolies

BY

M. RUBINSTEIN*

IT IS COMMON KNOWLEDGE that American and British firms have, among their other acquisitions in the way of reparations, secured an enormous number of patents in Germany. However, in order to appreciate fully the value and significance of this particular reparations item, it may be in place briefly to review the role patents play in world economics.

Under present-day capitalism patent rights are a powerful instrument in the hands of monopolies. By regulating the use of their patents, the trusts can dictate prices, divide up markets and determine technical policy for entire branches of industry. In many cases possession of particularly important and valuable patents has served as the basis for the conclusion of international cartel agreements.

Before the second world war major American, British and German trusts held hundreds of thousands of patents. The bulk of these was never put to use, being employed merely as a means of bringing pressure to bear on competitors.

International patent agreements and the so-called patent pools provided the monopolies participating in them with enormous research data and reserves of accumulated technical experience incorporated in patented formulas and designs. It should be observed, however, that these international patent pools, which were particularly prevalent in the chemical and electrical equipment industries, did not as a rule promote technical progress, but on the contrary served to retard it and hindered the industrial development of backward countries. Monopolies very frequently make use of patents to raise prices,

* This article appeared in *New Times* Moscow, 14th February, 1947 and is reprinted as an appendix to the present edition of this book. It reveals in concrete terms how the powerful American and British Monopoly trusts are once again trying to-day to spread their tentacles over Germany and through it, over Europe, and thereby desperately fighting to recover their lost world-dominion.

rob the consumer, swell the profits of big industry, and limit competition.

In the period preceding World War II, when powerful American monopoly trusts sought to reach agreement with Hitlerite Germany on the partition of world markets, international patent agreements facilitated Germany's rearmament and put a brake on preparedness in the Allied countries. A case in point is provided by such highly important patents as those covering production processes for synthetic rubber, aluminium, magnesium, tungsten and other vital strategic materials. The patent agreements reached by the Standard Oil Co. of New Jersey, the American du Pont chemical trust and the British Imperial Chemical Industries with the I. G. Farbenindustrie—that German chemical octopus, whose tentacles reached to all parts of the globe—served Hitlerite Germany in good stead.

This fact is recorded in numerous official documents of the United States Department of Justice and of various Senate and House committees which have investigated activities of trusts directed against the country's war effort.

A typical example of such activity is the patent agreement concerning tetracene which existed between the American Remington Arms Company, a du Pont subsidiary, and the I. G. Farbenindustrie. Tetracene is an improved detonator explosive used in place of fulminate of mercury in making cartridge primers for small arms ammunition. Invented in Germany in the 1920's it was immediately patented in all countries. In 1929 the Germans sold the patent to Remington for a small cash payment and royalties on sales. It was stipulated in the agreement that Remington Arms would not have the right to sell ammunition with tetracene detonators outside the United States.

Faithfully adhering to this agreement, the Remington Arms Company even in 1941 substituted the less efficient fulminate of mercury for tetracene in the ammunition it exported to Britain and Canada. Nor is that all, the Hitlerites continued to receive from the Remington Arms Company detailed information on ammunition sold to the United States government, so that the royalties due I. G. Farbenindustrie could be

computed. And the royalties from the sale of ammunition by the Remington Arms Company to the United States army for use against the Wehrmacht were taken over by the United States Alien Property Custodian for transfer to the German firm after the war.

William Bennett, American student of the patent system, who reports this astounding fact, makes the modest comment that monopoly profit interests do not coincide with the national interest.

Very many similar examples could be cited. After the war broke out in Europe, the I G Farbenindustrie turned over some 2,000 of its patents to the Standard Oil Company of New Jersey "for safekeeping." This was done in order to avert their confiscation by the United States government and with a view to collecting its share of American war industry profits after the war.

Patent agreements entered into by American monopolies also helped arm Japan. Thus, on the eve of the war the Universal Oil Products Co., itself a huge "patent factory" typical of modern capitalism, sold a Japanese firm, the Japan Gasoline Company, licenses to employ the latest cracking processes. Subsequently an agreement was concluded granting the Japanese licenses on patented processes for producing 150-octane and 100-octane gasoline for the air force. In 1940 Americans acted as consulting engineers on the construction of 150-octane installations in Japan. The Japanese, moreover, were supplied technical information on the production of 100-octane gasoline before other American firms.

Such are the policies of the patent-holding monopolies, which in Britain have been aptly dubbed "patriots Ltd."

* * * *

The pre-war patent contracts concluded by the monopoly interests of various countries—American, British and German in the first place—provided for the revival of these agreements and the international cartel alignments based on them as soon as hostilities ceased.

Naturally enough, however, the war brought a radical change in the relation of forces, and American monopolies are now

trying to take advantage of the situation to seize German patents. Moreover, they enjoy the energetic support of the state apparatus and of the American occupation authorities in Germany.

One can readily understand why the German monopolies, which have been preserved in the American and British zones of occupation, contrary to the Berlin Conference decisions, are, under the circumstances described, prepared to transfer their patents to their British and American cartel associates.

Early in 1945, before the war was over, representatives of leading American trusts and technical experts wearing military uniform entered Western Germany's industrial centres hot on the heels of the forward elements of the American army, primarily with the object of uncovering the repositories where German patents were kept. After the war ended the search for patents was systematized and organized on a large scale.

A special office called Field Information Agency, Technical, directly subordinated to General Clay, was set up at the American military government headquarters in Frankfurt. This office has a special "Technical Intelligence Branch," staffed by a large number of technical experts and microfilm operators. In the United States, there is the Office of the Publication Board of the Department of Commerce, with duties, according to President Truman's Executive Order No. 9604, including the collection of information on scientific and technical improvements, inventions, etc., in enemy countries and liberated areas. This office keeps the above-mentioned bodies of the occupation authorities informed on the needs and requirements of American industry.

John C. Green, Executive Secretary of the Office of the Publication Board, writing in the journal of the American Chemical Society, describes the methods used to obtain patents in Germany as follows:

A team of specialized technicians, accompanied by qualified German researchers and engineers who have been checked on by the military authorities, visits a research institute, laboratory or factory, makes a thorough study of the technological process or research program, and makes inquiry as to what technical or

scientific improvements or inventions have been developed there over a lengthy period of time. Then, with the assistance of German personnel, all material that may be of value to American industry is selected from the technical specifications, patents, patent applications, archives, scientific and technical journals, dissertations, etc. After this a team of German microfilm operators, working under American supervision, records all the selected data on microfilm, while the original (screening) team moves on to the next institution or enterprise. The microfilm is processed in Frankfurt, indexed according to a carefully worked-out system, and shipped to the United States.

By last autumn microfilms had been made of approximately 3,500,000 of the 3,500,000,000 pages of technical documents selected by team like the above and containing information of value to American industry.

John C. Green reports further:

"Among the storehouses of data recently discovered by our screening teams and currently being microfilmed in Germany are all the valuable inventions on which the I G Farbenindustrie had filed or were preparing to file patent applications in the German Patent Office."

Green observes with good reason that "obviously this is reparations in its most productive sense."

Although the author of the article cited above goes on to claim that this is not a "selfish operation for the benefit of the United States alone," inasmuch as all this information will allegedly be made available to citizens of all friendly nations, actually the German patents become the property of the interested American monopolies.

According to the foreign press, an agreement was concluded between the United States and Britain at the end of last year providing for an exchange of scientific and technical data obtained in Germany, including the exchange of microfilms of scientific and technical records.

This agreement is in full conformity with the agreement signed in New York on December 2, 1946, on the economic merger of the American and British zones of occupation in Germany, which gives British and American monopolies owner-

ship or control of a large part of German industry. If we bear in mind that the leading American and British monopolies (particularly in various branches of the chemical industry) have long been linked by patent agreements and pools, it will be clear that the agreements concluded between the governments do no more than legalize and confirm a state of affairs that already exists

The Office of the Publication Board of the United States Department of Commerce, mentioned above, is not only engaged in the extraction of patents, designs, chemical formulas, etc. It also organizes on a large scale the despatch of researchers and skilled engineers employed by industrial trusts to Germany to obtain firsthand information on the operation of kindred German industries. People sent on these missions visit the principal plants and research laboratories of any given industry, collect technical data and compile detailed findings. Then they return to their regular employment, their firm paying all the expenses of the trip. The purpose is to assimilate German technical experience. With the same end in view, unique industrial equipment and materials of technical interest to American industry are being shipped to the United States. The War and Navy Departments arrange exhibits of such equipment and place it at the disposal of interested firms for detailed study and tests.

Finally, for the same purpose, German scientists are being shipped to the United States. Last autumn there were more than 250 German scientists in America, who had been brought over to work on military projects. According to a joint statement of the State, War and Navy Departments, it has been decided to bring 1,000 German and Austrian scientists to the United States, primarily to aid the army and navy research programs. Upon completion of their military assignments, some of these scientists may be made available for work in industry. In addition, industrial firms may, on their own initiative, bring in from Germany additional research workers, over and above this 1,000. After the scientists thus brought in have been screened for "loyalty to the United States" they may apply for American citizenship.

These methods of assimilating German scientific and technical experience are an essential corollary to the seizure of German patents, for at the modern level of technology, the application of patents is often possible only if combined with practical experience, with what the Americans call "know-how." Without this knowledge a patent may prove to be dead capital.

The patent extraction operations described above have been conducted on so vast a scale that the foreign press credits the American and British authorities with seizing some 200,000 German patents. It is difficult, of course, to assess their value, since many of the inventions have not yet been tested on an industrial scale. There is no doubt, however, that it runs into many billions of dollars. It has been reported, for example, that certain American firms have offered tens of millions of dollars for the secret of one patented production process.

Besides the patents which have been brought over from Germany, the Office of the Alien Property Custodian, which was abolished last autumn, controlled 45,000 patents and some 500,000 copyrights, not to mention other valuable technical documents that belonged to German (and Japanese) nationals residing in the United States.

Thus the most cherished industrial secrets, and the problems of production technique connected with them, form one of the richest military trophies victors have ever gained. Commenting on the report of the joint Anglo-American commission dealing with the seizure of German inventions and technical improvements, the *London News Chronicle* wrote that "the value of the scientific knowledge and 'know-how' obtained cannot be fully measured."

It is obvious that the utilization of German inventions and scientific discoveries may net American industrialists returns running into millions, perhaps even thousands of millions, of dollars.

Possession of German patents by American and British monopolies signifies a further growth of their strength and the consolidation of their domination in revived or newly formed international cartels. At the same time it not only fails to weaken, but, on the contrary, tends to strengthen their ties

with the German concerns, which (for the time being at least) play the part of "junior partners"

The data cited above leads one to these conclusions

Although the United States and Britain have up to the present refrained from naming the exact sum of their reparations claims on Germany, they have been extracting reparations in the most diverse forms from the very beginning of the occupation. For one thing, enormous assets are being seized in the shape of German patents, while the press bandies rumours about a possible waiving of all reparations claims.

These assets pass into the hands of British and American monopolies, which thus become the chief recipients of reparations. These monopolies—which, far from incurring any losses from the war, actually made enormous profits on war contracts—are now out to pile up more profits on reparations.

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Index

- Act of Chapultepec, 175, 177
 Agrarian reform, in Eastern Europe, 264f, in Germany, 54, 265f
 Aldrich, Winthrop W., 168f, 174
 Allied Control Council, Tokio, 61
 Aluminum Co of America, 34, 77, 108n, 109f
 American I G Corp, 24
 American Lead Co, 34
 American Telephone & Telegraph Co, 107n
 Anaconda Copper Mining Co, 14, 47n
 Anderson, Sir John, 149
 Argentina, 30
 Anglo-American bloc, 173f, 272, 275
 Atlantic Charter, 136, 159
 Atom bomb, 275, 277
 Atomic energy, 111f

 Baruch, Bernard M., 45f, 162
 Bausch & Lomb Optical Co, 16
 Berge, Wendell, 34, 41, 164, 170f
 Bethlehem Steel Co, 107n
 Beveridge, Sir William, 94, 155, 156
 Bretton Woods, 156, 174, 178, 237

 Cairo Declaration, 134
 Canada, 132f, U S interests in, 131f
 Cartelization, of Germany, 18, 20f, of Great Britain, 144f, 154f, of Japan, 72ff, in U S, 116f, of world, 183ff
 Cartel association, aluminum, 34, 77, chemical, 15, 17, dynamite, 15, 17, European Steel, 16, 17, 31, 146, industrial diamonds, 165, International Rail, 16, nickel, 165, oil, 32n, optical goods, 16, quinine, 165, rubber, 110, 165, synthetic rubber, 32n, tin, 165, 165, titanium, 94, collusion with U S trusts, 31f, control of Europe, 27ff, in Germany, and war preparations, 21, influence in U S, 23
 Cartels, and economic crises, 185f, and production, 185, and trusts and combines, 188f, and U S trusts, 116, U S policy towards, 164f, 201
 Central China Promotion Co, 84
 Chamber of Commerce, Great Britain, 150, 154, International, 168, 174, United States, 161
 Chase National Bank of New York, 168

 China, Japanese economic penetration in, 80, Soviet policy on, 235, U S industrialization plan for, 200
 Chrysler Motor Corp, 103n
 Churchill, Winston, 51, 154, 157
 Clayton, William L., 44, 163
 Colonial crisis, 133f, 276, and the Soviet Union, 234f, and U S expansion, 202
 Commodity agreements, 165f, 178
 Courtaulds, Ltd., 155
 Crimea Declaration, 9, 43, 53, 54

 Dawes Plan, 14
 Defense Plant Corp, 109n, 110
 Dillon, Read & Co, 47n
 Dornier, 17
 Duesseldorf Conference, 25f, 173
 du Pont, I E, de Nemours & Co, 19, 32, 105, 107n, 108, 111f
 Dutt, R Palme, 123, 124, 149

 Economic Charter of the Americas, 159, 177ff
 Economic crisis, of 1929-33, 93, 105, 118, 123, 160, 186, and monopoly, 97f, postwar, 93ff, 190, and technology, 97f
 Edwards, Corwin D., 31 171
 Ethyl Gasoline Corp, 32n
 Europe, new democracies in, 262ff, and U S credits, 204f

 Far Eastern Commission, 61
 Federation of British Industries, 25, 94, 146, 150, 154, 155, 157, 173
 Ford Motor Corp, 14, 103n
 Formosa, 78
 France, Communist Party, 28, 269, nationalization in, 268ff, trusts and collaboration, 28ff, and Western bloc, 56

 de Gaulle, Gen Charles, 49, 51
 General Aniline & Film Corp, 33
 General Electric Co, 14, 32n, 77n, 107n, 112
 Goering, Works, 29, 42, 55
 General Motors Corp, 14, 47n, 77, 103n, 107n, 108

- Germany, agrarian reform, 54, 285f, anti-Nazi movement after defeat, 53ff, as anti-Soviet buffer, 45, elimination of industry, 43ff, 49, 55, 56, industrial war potential after defeat, 37f, industry by occupation zones, 36ff, hidden assets abroad, 38f, 44, reparations, 48f, 55, restoration after World War I, 10ff, state participation in trusts, 55
- Goodyear Tire & Rubber Co., 107n
- Great Britain, cartel policy, 152ff, concentration of production, 140ff, Empire preferences, 132f, 156, export drive, 129, foreign income, 122, foreign trade, 122, 127, government controls, 144f, 147ff, industrial stagnation, 121, 123f, 143f, Labor Government, 50, labor productivity, 126ff, loss of overseas assets, 127ff, mergers, 143f, regional blocs, 50, 155f, trade associations, 145f, U S credits, 129, 174, 204, U S inroads into Empire, 122, 131ff, wartime production, 125f
- de Haas, J Anton, 184f
- I G Chemie, 24, 33
- I G Farbenindustrie, 22ff, 27, 32ff, 37n, 40, 42, 48, 77n, in France, 28, and Hitler, 19, in U S, 17f
- Imperial Chemical Industries, 142, 149
- India, 136ff, 200
- Indo-China, 135f
- Indonesia, 135f
- Industrial and Export Council, 150, 151
- Inter-American Conference, Chapultepec, 177ff, 199
- International Harvester Co., 107n
- International Telephone & Telegraph Co., 14, 77, 163
- Iran, and the Soviet Union, 245
- Iron and Steel Federation, Great Britain, 146, 149
- Japan, bank concentrations, 63, 64, Cabinet Advisers Council, 74, clashes with Soviet Union 70, conditions of surrender, 59ff, dissolution of Zaibatsu, 76, elimination of small business, 73, Emperor, 60, 68, expansionist tendency, 67f, industrial growth, 62f, 68f, Meiji Restoration, 60, military vs Zaibatsu, 69ff, "moderates," 65ff, Moscow Conference and, 61, nationalization of war industry, 75, nature of state, 66, "new economic structure," 71ff, new Zaibatsu, 66, 73, peasantry, 67, Zaibatsu in colonies, 64, Zaibatsu holdings, 63ff
- Japan Economic Federation, 72f
- Jones, Sir Edgar, 155, 183
- Kilgore Committee, 31, 38, 41, cartel policy, 167f, and German cartels, 44f
- Korea, 79f, 235
- Krupp works, 16, 19, 20, 38
- Labor Party, Great Britain, 154
- Latin American Confederation of Labor (CTAL), 180ff
- Latin America, U S wartime policy, 199f
- Lend-Lease, 125, 127, 129f, 199, 215
- Lenin, V I, 31, 104, 117, 121, 187, 196, 211, 230, 259ff
- MacArthur, Gen Douglas, 58, 75f, 85
- Manchuria, 61ff, 86
- Mellon interests, 24, 105
- Mitsubishi interests, 63, 77, 79, 80
- Mitsui interests, 63, 80, 84
- Molotov, V M, 211, 213, 217, 226, 231f
- Munich pact, 25, 27, 226
- National Ass'n of Manufacturers, 21, 106f, 176f, 184
- National Foreign Trade Council, 173, 175f
- Nationalization, and anti-fascism, 258f, Eastern Europe, 266ff, France, 269, Germany, 55, Great Britain, 197, 270f, Japan, 75, problem of in U S, 162ff
- National Lead Co., 77n
- National Recovery Administration, 106, 118, 160
- Philippines, 81, 136, 196
- Pollitt, Harry, 148, 151
- Polish Declaration, 9, 36, 42ff
- Puerto Rico, 196
- Republic Steel Corp., 47n
- Rockefeller interests, 105
- Roosevelt, Franklin D., 95, 96, 119, 136, 166, 198, 203
- Ruhr, 36ff, 49ff
- Russian Revolution of 1917, 207
- Schacht, Hjalmar, 20
- Sherman Act, 171
- Shidehara Cabinet, 75
- Silesia, 37, 56
- Socialism, as advanced system, 274, and capitalism, 255, and fascism, 253f, in Soviet Union, 207ff
- Soviet Union, capitalist boycott of, 241f, Central Asia development, 220, 245, evacuation of industry, 216, "expansionism," 230ff, Far East development, 217, 245, Fifteen-Year Plan, 214, foreign concessions in, 241, foreign policy, 225ff, foreign trade, 237ff, and Germany, 53ff, industrial growth, 210, 219ff, intervention against, 11f, labor productivity, 210f, 219, and Manchuria, 81f, nationality policy, 233f, New Economic Policy, 240n, 251f, new industrial centers, 216ff, occupation policy, 231, postwar reconstruction, 221ff, production compared with other countries, 212f, standard of living, 210f, territorial changes, 228f, Third Five-Year Plan, 209ff, and trusteeship, 203, and U S.

credits, 204, 242*f*, and U S expansionism, 192, wartime destruction in, 214*f*
 Spain, 17, 30
 Standard Oil Co of New Jersey, 14, 24, 33, 47*n*, 77, 107*n*, 113
 Stalin, Joseph, 210, 211, 213, 222*f*, 225, 231, 274
 Sumitomo interests, 63, 77
 State capitalism, 250*f*, in Eastern Europe, 262*f*, and fascism, 256*f*, and monopoly, 250*f*, and Russian Revolution, 259*f*, and Social-Democracy, 260*f*, and socialism, 260*f*

 Thorez, Maurice, 269
 Thyssen, 19, 20, 56
 Trusteeship, colonial, 136, 204
 Turkey, and the Soviet Union, 245

 Unilever combine, 142, 149
 Union Carbide & Carbon, 112
 United Nations, San Francisco Conference, 234, 235, 237
 United States, Administration policy for Japan, 59*f*, anti-trust movement, 118*f*, bank concentration, 114, capital exports, 89, centralization of industry, 104*f*, concentration of production, 101*f*, 113, elimination of small business, 114*f*, expansionism of trusts, 43, 116*f*, 188*f*,

government economic controls, 94, 117*f*, 160*f*, government-owned plant, 90, 109*f*, investment in German industry, 47, investment in Japan, 77, investment in Latin America, 181, and Japanese assets abroad, 84*f*, loan policy, 204*f*, mergers, 104, monopolists in German Military Government, 45, postwar boom, 95*n*, productivity of labor, 90*f*, reconversion, 94, share of world economy, 88*f*, strategic bases, 202, trade associations, 105*f*, trade expansion, 127, territorial expansion, 134, 202*f*, war contracts, 108, wartime industrial production, 88, 89*f*, wartime profits, 114
 U S Rubber Co, 107*n*
 U S Steel Corp, 103*n*, 107*n*

 Vereinigte Stahlwerke, 41, 42, 56
 Versailles Peace Treaty, 11, 15, 16
 Vickers, Ltd, 17, 149

 Webb Pomerene Act, 171
 Weimar Republic, 10*f*, 13, 18, 20
 West European bloc, 49*f*, 157, 175
 Westinghouse Mfg Co, 77, 107*n*, 114

 Ysuda interests, 63, 83

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